

FINANCIAL TIMES

Portugal

Natural gas arrives

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The US and Ecu

A slowly dawning awareness

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Alternative fuels

Pressure on petrol and diesel

Technology, Page 24

Zambia

Standing on the threshold

Survey, separate section

World Business Newspaper <http://www.FT.com>

TUESDAY MARCH 4 1997

Thailand halts trading in financial stocks

Dealing in banking and other financial stocks was suspended in Bangkok as the Bank of Thailand ordered banks and finance companies to raise provisions for dubious loans and asked 10 finance companies to boost capital to lift shaky confidence in the industry. Finance minister Amnuay Wiratan estimated that the 15 domestic banks would need to set aside an extra Baht 26bn (\$830m) of provisions for loans not serviced for more than three months, while finance companies would have to raise another Baht 26bn of provisions. Page 16; Daily financial cocktail, Page 4; Editorial Comment, Page 15; Lex, Page 16

Washington warns Beijing: Senior US treasury official Lawrence Summers warned Beijing that any mishandling of Hong Kong's transition to Chinese sovereignty would harm its own interests as well as the territory's economy. He also said China's plans to replace the existing legislature and amend civil liberties laws had raised concerns. Page 4

Former Banesto bank chief stands trial: Mario Conde, left, chairman of Spain's failed Banesto bank, went on trial in Madrid accused of misappropriating Ptas600m (\$4.2m). The High Court's investigating judge said he and his collaborators hid the true financial state of Banco Español de Crédito-Banesto, which had a Ptas605bn deficit in 1995, and were to blame for the bank's crisis. Page 2

Move on Peru hostages: Peru's President Alberto Fujimori said Cuba had agreed to offer asylum to Marxist rebels holding 72 hostages in Lima should Japan and Peru formally request this. Earlier a Madrid spokesman for the rebels said they would not accept exile. Earlier report, Page 5

Albanian leader re-elected: Embattled President Sali Berisha was re-elected for a second term by Albania's parliament as the authorities enforced a state of emergency to try to quell civil unrest. Page 16

Quake toll rises: The death toll from an earthquake in north-west Iran rose to 955 as rescue workers searched the region to assess damage from a second quake to hit the area in two days. About 40,000 were left homeless.

Pakistan train crash: At least 126 people were killed in Pakistan when a runaway passenger express crashed after being diverted to avoid a head-on collision with another express near the town of Khanewal. The diverted train hit the buffers at the end of a dead-end spur line.

HSBC 25% ahead: London-based international bank HSBC Holdings forecast a challenging year ahead as it reported a 23 per cent rise in 1996 profits to \$4.52bn (\$7.3bn). Chief executive John Bond said HSBC wanted to make insurance an international core activity. Page 17; Lex, Page 16

Malaysia telecoms: A consortium led by SBC Communications of the US was poised to take a 30 per cent of Telekom, South Africa's national operator. Germany's Deutsche Telekom withdrew at the last minute. Page 17

Move on money laundering: Tax evasion should be included in all extradition treaties to step up the fight against drug trafficking and money laundering, according to the UN agency for monitoring the drugs trade. Page 16

Only police, officers: Chilean police stopped 49 motorists in Santiago for using cellular phones while driving, only to find that a third were pretending to talk on fake phones, a local newspaper said.

Corrections: On Saturday we incorrectly referred to a loss on copper trading by Sumitomo Trust. The loss was made by Sumitomo Corporation, not by Sumitomo Trust International which are completely different entities. We apologise for the error.

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STOCK MARKET MOVES	
New York: Dow Jones Ind. 8989.00 (+18.09)	NASDAQ Composite 1304.27 (+4.73)
Europe and Far East:	
CAC 40 3282.26 (+7.29)	DAX 3383.96 (+4.22)
FTSE 100 4387.1 (-1.2)	Nikkei 15,428.13 (+127.87)

US BOND YIELD RATES	
Federal Funds 5.5%	3-mth Treas. Bill 5.25%
Long Bond 5.0%	Yield 5.0%

OTHER RATES	
UK 3-mth Interbank 6.5%	US 3-mth 5.25%
UK 10 yr Govt 10.1%	US 10 yr 6.5%
France 10 yr Govt 10.2%	Germany 10 yr Govt 10.3%
Japan 10 yr Govt 10.4%	Yield 10.4%

NORTH SEA OIL (April)	
Brent Dated 19.41	Oil 19.41

STERLING	
DM 2.7425	2.7425

AT&T says profits to fall by 30%

By Richard Waters in Basking Ridge, New Jersey

Walter vows \$2.6bn in cuts over two years

American Telephone & Telegraph, the biggest US telecommunications carrier, surprised Wall Street yesterday by predicting its earnings would fall by as much as 30 per cent this year.

The news underlined the growing pressure on AT&T from intense competition in its traditional markets, as well as the huge investments it faces to revamp its systems.

The warning came as Mr John Walter made his first full-scale presentation to investors and analysts since becoming president in January.

The former printing company executive was appointed

in October last year as heir apparent to Mr Robert Allen, chairman, as part of a management overhaul.

Mr Walter promised "significant" changes in the AT&T culture, and a shake-up in its organisation to make it more responsive to its customers and to changes in telecoms markets.

To get its earnings growing again, he also promised \$2.6bn of savings in the next two years from a review of all aspects of the company's operations.

Addressing about 200 people at AT&T's headquarters in

New Jersey, Mr Walter predicted that AT&T would eventually come through with strong earnings.

He said that by 2001 the company would make twice what it will earn in 1997.

However, the gloomy short-term forecast marked a further piece of bad news from a company that was forced to issue two earnings warnings last year.

AT&T's stock fell \$3 to \$36 1/2 yesterday morning. The com-

pany indicated it expected to earn between \$2.45 and \$3 a share this year, down from \$3.47 last year.

Mr Walter delivered a blunt verdict on the company's loss of market share last year in its core long-distance telephone calling business - a setback which he said had "dimmed the lustre" of AT&T.

"In some ways, the market dynamics simply got away from us," he said.

This year would see further damage, as smaller competitors continued to chip away at the company's 90m residential customers. Also, AT&T's earn-

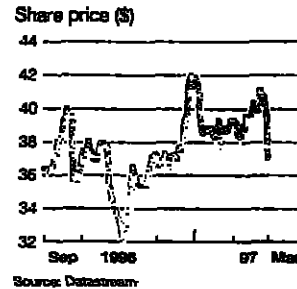
ings will be dented by higher spending on new equipment, since it will have to pay full commercial prices to Lucent Technologies, the equipment maker that it spun off as a separate company last year.

While marking down their expectations for AT&T's profits, many analysts at yesterday's meeting continued to look to Mr Walter to make the changes that would eventually see the company rebound.

"He gave the most honest statement that an AT&T executive has given about the company's prospects for a long time," said Mr Jack Grubman, a telecoms analyst at Salomon Brothers.

"It was clear that the core

Share price (\$)



business was going to stay under pressure."

AT&T also warned that its earnings in the first quarter of this year would be "slightly below" the 76 cents a share of the last three months of 1996.

Industrial action over factory closure threatens to spread across Europe

Belgium set to sue Renault on factory closure

By Neil Buckley in Brussels and David Owen in Paris

Renault was last night facing legal action and threats of stoppages across Europe over plans to close its Belgian car factory with the loss of 3,100 jobs.

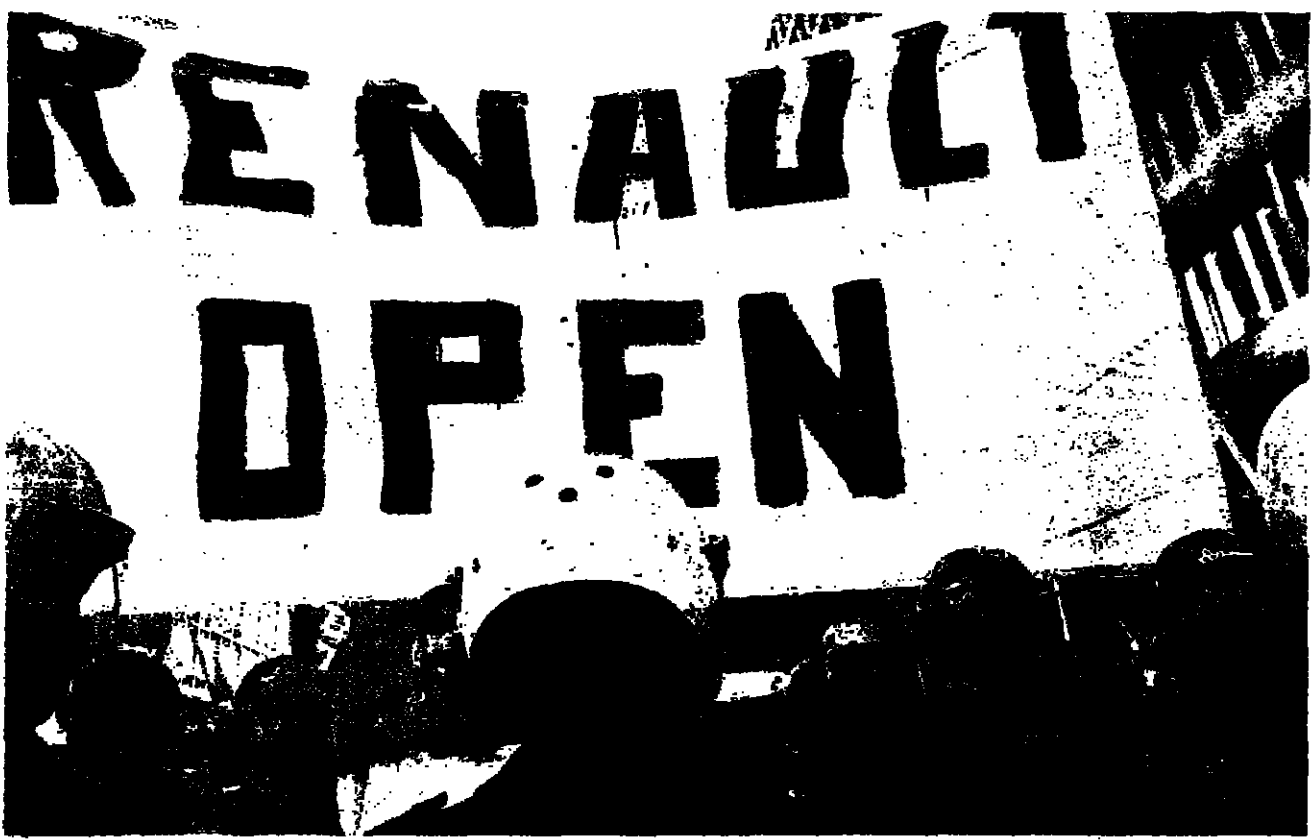
As more than 4,000 workers protested in the streets of Brussels, the Belgian government said it was likely to take the French carmaker to court over its failure to consult workers about the closure.

Industrial unrest threatened to spread as unions called for one-hour stoppages in Renault's French and Spanish plants on Friday to coincide with a day of action by Belgian workers. Renault factories in Portugal and Slovenia were urged to join the protests.

The calls came amid reports that Renault was preparing to shed 3,000 workers in France this year, on top of the closures at Vilvoorde, north of Brussels. Renault would neither confirm nor deny the reports.

Mr Jean-Luc Dehaene, Belgian prime minister, who has attacked Renault's decision as "brutal and unacceptable", won backing for his calls for court action against the carmaker from Mr Karel Van Miert, the European Union competition commissioner.

Mr Van Miert told a regional minister he believed Renault had failed to respect two EU directives. Although the Commission does not have the



Angry Renault workers confront riot police during the mass demonstration in Brussels yesterday

right to take action itself, Mr Van Miert suggested Belgium would have a strong case against Renault in its national courts.

"I don't understand Renault's decision because it is closing a very profitable plant in which it has invested a lot in recent years," Mr Van Miert said.

A 1975 EU directive on collective redundancies, revised in 1992, says employers planning cuts must consult workers "in good time with a view to reaching an agreement". The 1994 EU works council directive reinforced the obligations for companies, like Renault, which have set up worker consultation bodies.

Yesterday 3,500 workers from Vilvoorde and Renault

showrooms marched past EU institutions in Brussels calling for the plant to be saved. They were joined by workers from Forges de Clabecq, the bankrupt southern Belgian steel works where 1,800 jobs may be lost.

Staff continued to blockade the Vilvoorde factory to prevent shipment of almost 5,000 finished cars, worth Bfr3bn (\$86.1m), and threatened to hold "hostage" some 2,000 partly-finished models.

Mr Louis Schweitzer, Renault chief executive, yesterday agreed to meet Vilvoorde workers this week, but said there was no going back on the closure decision.

Renault, in which the French government retains 47 per cent after partial privatisation last year, will shortly announce its first loss in 10 years - forecast to be close to Bfr5bn (\$87m).

It says closure of Vilvoorde, and transfer of production of Mégane and Clio models to factories in France and Spain, will save Bfr650m a year. Renault added that proper consultation procedures had been followed.

Spain's employers and unions meet today in an attempt to end the deadlock in the talks on joint proposals for labour market reforms. The government has warned that if no agreement is reached today it will legislate.

Labour reform, Page 2
Renault at staging post, Page 28

UK private retailer puts 135-store chain up for sale

By Peggy Hollinger in London

Littlewoods, the UK's largest private retailer, is set to break its links with 60 years of shopping history by putting its trademark stores up for sale. The move could bring the company substantially more than \$500m (\$815m).

The group, which launched its first retail outlet serving shoppers on low incomes in 1937, is understood to be hoping for a quick sale of the 135-store chain.

It has already received at least two serious approaches and potential bidders are thought to include one super-market group keen to expand its retailing outlets.

Littlewoods has appointed financial advisers BZW to prepare a sale document which will be distributed in the next 10 days.

If bidders fail to meet its target price range, Littlewoods is

expected to withdraw the division from sale and focus on increasing returns from the poorly performing chain. Figures for calendar year 1996 show an operating profit of £17.8m on turnover of £448m.

Littlewoods was founded in 1928 in Liverpool when Sir John Moores first began selling pools coupons betting on the results of soccer matches. In 1932 he launched his first home shopping catalogue for cash-strapped consumers and five years later opened his first store in Blackpool.

The disposal marks the first stage in a radical overhaul of the pools, mail order and stores business following the appointment as chairman last summer of Mr James Ross, former chief executive of Cable and Wireless.

If successful, it would leave Littlewoods with the home shopping business, with sales of about £1bn a year, the index

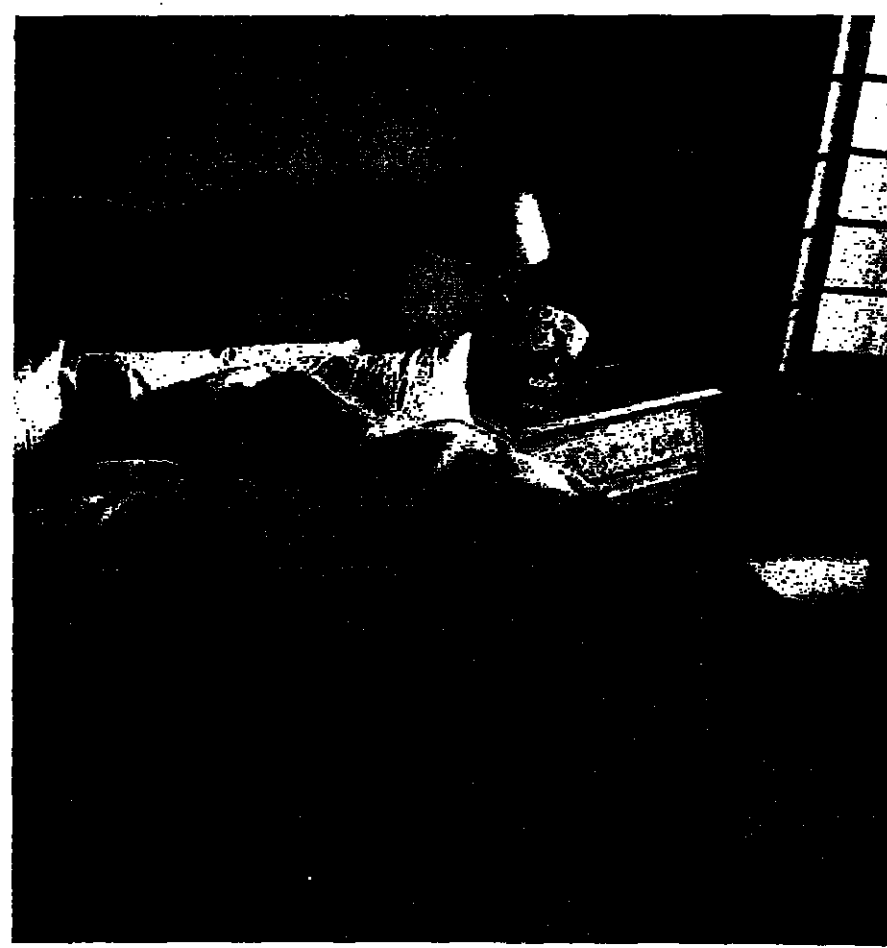
catalogue stores, and the football pools business, which had turnover in 1995 of £631m.

It is understood that the Moores family, which owns the retailing group, has backed the sale proposal. The family has been unhappy with the group's performance in recent years and came close to selling the business in 1995.

However, shareholders rejected two bids of more than £1bn. The bidders are believed to have valued the stores and property division at about £450m, which shareholders considered unacceptably low.

Littlewoods is aiming to take advantage of strong growth in the direct mail sector. It is hoping to boost its sales with the £380m purchase of Freemans, the UK's third-largest mail order group, from Sears. The deal has been referred to the Monopolies and Mergers Commission and a decision is expected in the summer.

"Cancel the warm milk. I don't think I'll need it."



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NEWS: EUROPE

Industry resists proposals to limit audience share in European Union

Brussels media plan under fire

By Emma Tucker in Brussels

The European Commission is coming under heavy pressure to abandon plans to harmonise media ownership in the European Union which would impose a 30 per cent limit on the radio or television audience share a company or individual could have in any member state.

The controversial proposals, drawn up by Mr Jacques Santer, the single market commissioner, would also introduce a threshold of 10 per cent on the total audience share permissible for "multimedia" enterprises combining television, radio and press.

In a letter to Mr Jacques Santer, president of the European Commission, Sir Frank Rogers, chairman of the European Publishers' Council, says the proposals would be against the EPC's "long-term interests and the interests of a flourishing European media industry."

"The legislation will constrain the size of media companies in ways which will be very damaging not only to the companies, but to Europe in general," said Sir Frank yesterday.

Presentation of the proposals to the full Commission was scheduled for tomorrow but has been put back for at least a week amid signs that

some Commission officials are unhappy with the draft proposals. They are broadly similar to those rejected by the full Commission last September on the grounds that they were too strict and would have blocked the industry's growth.

But in an attempt to win wider support for his initiative, Mr Monti has introduced a "flexibility" clause which would give member states the discretion to allow their media companies to exceed the proposed thresholds. The clause, which would run for an initial 10 years, could only be applied in the state where the media company has its main

operations. So Mr Silvio Berlusconi, the Italian media magnate, could maintain his more than 30 per cent share in the Italian market but would only be allowed up to a 30 per cent share in any other EU state.

However, officials inside the Commission believe more work needs to be done to resolve exactly how the flexibility clause would apply. For example, it is not clear who would have jurisdiction over the clause if a company from one member state bought into more than 30 per cent of the media interests in another member state.

Mr Monti is determined to

press ahead with his proposals in spite of the sensitivity in member states over media ownership. He argues that the many different laws on media concentration across the 15 member states are preventing the free flow of media services inside the single market and are preventing the development of "the industry at a European level."

The EPC remains opposed to the legislation in spite of the flexibility clause. In his letter Sir Frank argues that the clause will not provide companies with the legal certainty necessary to commit to major, long-term investment decisions.

EU call on global warming gases

By Caroline Southey in Brussels

The European Union is to press for dramatic worldwide cuts in greenhouse gas emissions, putting pressure on countries such as the US and Japan to back ambitious targets at the next international summit on climate change later this year.

In a surprise turnaround, EU environment ministers agreed to put forward proposals for the Kyoto summit calling for a 15 per cent cut in emissions of greenhouse gases - which contribute to global warming - by 2010. Observers had not expected an agreement to be achievable when ministers began their meeting on Sunday night.

The proposal raises the stakes for member countries of the Organisation for Economic Co-operation and Development which are meeting in this week in Bonn to discuss the terms of a protocol for the international summit in December.

The Kyoto gathering will agree the next phase of targets for global cuts in emissions, extending the mandates of the Rio and Berlin summits.

Environmental groups welcomed the decision and said the EU proposal would inject new energy into the Kyoto preparatory talks.

"The EU initiative has come at a critical moment. It has provoked a flurry of interest and could break the stalemate in negotiations," said Mr Andrew Kerr, co-ordinator of European Climate Change for the World Wild Fund for Nature, who is attending the talks in Bonn.

The EU ministers agreed to back the ambitious target of 15 per cent, but failed to reach agreement on how the Union would achieve the full target. Ms Margaret de Boer, the Dutch minister, said they had agreed on how to share out the targets between countries for only 10 percentage points of the 15 per cent pledged. The remaining 5 percentage points would be negotiated at a "later date".

A Dutch official said the EU would be committed to the 15 per cent target only if it was endorsed by the Kyoto summit. "If there is a minus 15 per cent figure agreed in Kyoto, then the EU is committed to adopting measures in addition to existing commitments," said Mr Kees Zoeteman, deputy director for environmental affairs in the Netherlands.

But he admitted the likelihood of a deal at the summit on such an ambitious figure was remote. "If Kyoto reaches agreement on minus 10 per cent - which would be a major step forward and far from likely at this moment - we would be ready to implement it," he said.

The deal was struck after the ministers watered down a previous Dutch proposal, cutting the target levels for each country.

EUROPEAN NEWS DIGEST

Paris, Bonn in security talks

Germany and France moved significantly closer yesterday to agreeing a joint plan for developing common European Union defence and security policy. Foreign ministers from the two countries discussed proposals for setting general "strategic" policy on the principle of unanimity - but allowing implementation details to be set according to qualified majority voting among member states.

The plan - which emerged after a meeting between Mr Klaus Kinkel of Germany and Mr Hervé de Charette of France - was described by officials as an important step in discussions on the future shape of the EU. It marks a concession by Germany, which has in the past sought backing for the qualified majority voting - weighted according to the size of members - to be the rule in foreign and security policy.

Mr Kinkel also proposed appointing a "secretary general" to "front" the EU foreign and security policy who would rank below government ministers. It was unclear how much support this proposal would win from France, which wants a high-profile appointment. German-French proposals for a common foreign and security policy are expected to be presented at next Monday's session of the inter-governmental conference preparing for the Amsterdam summit in June. *Ralph Atkins, Bonn*

Party funding trial in France

Two former treasurers of France's Socialist party went on trial in Lyons yesterday over an allegedly covert party funding network dating back to the late 1980s.

Mr Henri Emmanuelli and Mr André Laignel are among 50 defendants in a trial expected to last about a month. The others include numerous elected local Socialist officials and business executives.

Mr Emmanuelli and Mr Laignel are accused of receiving illicit campaign contributions from a company known as Urba which allegedly demanded consulting fees from businesses in return for public works contracts.

Mr Emmanuelli has already been given a one-year suspended jail sentence and a fine of FF200,000 (\$5,250) on similar charges in a separate trial in 1995.

Both men deny involvement in Urba and say they were unaware of illegal activities. *Reuters, Lyons*

Setback for Turkey's PM

The leader of Turkey's biggest leftwing party yesterday snubbed efforts by Mr Necmettin Erbakan, the embattled Islamist prime minister, to seek a political consensus to bolster his government after military commanders on Friday demanded he respect Turkey's secularist system or face "sanctions".

Mr Bülent Ecevit, head of the Democratic Left party, said after meeting Mr Erbakan: "I do not think he is sincere in his search for dialogue." Mr Erbakan's coalition government faces an opposition no confidence motion in parliament today but is expected to survive easily, in spite of mounting opposition.

Demonstrators in Istanbul, many of them women, held a rally commemorating the abolition in 1924 of the Ottoman caliphate by Mr Kemal Atatürk, founder of the secular state. They sang republican songs and chanted anti-government slogans. *John Barham, Ankara*

Shatalin dies at 62

Mr Stanislav Shatalin, a pioneer of efforts to introduce market reforms to the moribund Soviet economy, died yesterday aged 62. He was once described as the St George in Russian efforts to slay the communist economic dragon.

In the late 1980s Mr Shatalin worked closely with Mr Mikhail Gorbachev as he attempted to reform the Soviet economic and political system without breaking it by abandoning a socialist-style concern with full employment, a wide array of government-provided services and a strong role for the state in the economy.

By the early 1990s Mr Shatalin began to advocate more radical solutions. Together with Mr Grigory Yavlinsky, a leading liberal politician, he drew up the "500 Days" programme, a bold, step-by-step plan to shift from central planning to a market economy. The scheme was never implemented and was rendered obsolete by the collapse of the Soviet Union, but its ideas served as an important foundation for measures which a younger team of economists launched in 1992. *Christina Freeland, Moscow*

ECONOMIC WATCH

Finnish finances improve

Good news yesterday on the improving state of Finland's public finances was offset by figures showing unemployment stuck at close to record high levels. According to official statistics, unemployment in January (adjusted to comply with European Union measurements) stood at 16.7 per cent of the workforce. This was down from 17.4 per cent in January 1996, but up significantly from December's 15.1 per cent.

The good news is that the budget deficit was 2.6 per cent of gross domestic product at the end of last year, inside the 3 per cent upper limit set for qualification for European monetary union for the first time since 1991. The Social Democratic-led government is committed to Finnish membership of Emu from its planned start in 1999. The public debt, measured according to Emu qualification criteria, rose to 58.8 per cent by the end of 1996, also inside the 60 per cent Emu limit.

Sweden's producer price index rose 0.3 per cent in January from December but fell 2.2 per cent from a year earlier, the central statistical bureau reported.

The Dutch trade surplus widened to F13.733bn (\$19.7bn) in November from F11.911bn a year earlier.

Instead of serving notice to lawyers, the judge called in senior executives including Mr Jesús de Polanco, chairman, and Mr Juan Luis Cebrián, chief executive, who hold the same posts in the leading newspaper El País. They were forbidden to leave the country. El País commented that it did "not seem fortuitous" that the

EU looks for Russia-Nato accord

By Chrystia Freeland in Moscow

European Union leaders yesterday expressed the hope that Russia would reach an agreement with Nato before the alliance invites eastern European states to join this summer. "The Russian attitude [on Nato] has not changed, but at the same time there is a strong will to reach a set of conclusions before [the Nato summit in] Madrid," Mr Wim Kok said yesterday.

Mr Kok, the Dutch prime minister, whose country holds the rotating EU presidency, was speaking after a

summit meeting between President Boris Yeltsin and EU leaders in Moscow.

He said the Russian leader had asked Europeans to participate closely in the discussions about relations between Russian and Nato ahead of the US-Russia summit, scheduled to take place in Helsinki later this month. That meeting is expected to focus on Nato and many observers hope it could lay the groundwork for a special agreement between Russia and the alliance.

Mr Kok's comment suggests that Mr Yeltsin is eager to engage Euro-

pean states - which have at times been less insistent on the issue of Nato expansion than the US - as a moderating force in negotiations between Moscow and Washington.

Mr Yeltsin's meeting with EU leaders, originally due to take place at The Hague on February 4 but rescheduled because of his health problems, marks the beginning of a strenuous week in which the president is hoping to re-emerge as the dominant figure in Russian politics.

Later this week Mr Yeltsin will deliver an annual state of the nation address, his longest live public

appearance since August 9, when he was inaugurated. The address has already frayed nerves in Moscow, amid widespread expectation that Mr Yeltsin could use the opportunity to reshuffle the cabinet.

At the weekend, Mr Yeltsin will again be seeking a deal for Russia in the face of imminent Nato expansion plans when Mr Javier Solana, the military alliance's secretary general, travels to Moscow.

European leaders said Mr Yeltsin seemed up to the strain. "The president was in excellent spirits and very active," Mr Kok said.

Latvian port charts new course

The partially sunken submarines that litter the Latvian port of Liepaja are the most dramatic legacy of the Russian navy's reluctant and bitter withdrawal in 1994 from the largest Soviet naval base in the Baltic states.

The port's abandoned residential area resembles a burned out ghetto. Old, stately Swedish-style homes, vandalised by departing Russians, stand empty, their windows shattered. One in three jobs was lost when the military left and the city's population fell by a fifth.

Latvians now pin their hopes for the city's revival on the thriving Baltic Sea trade to and from Russia that could bring back the prosperity the country enjoyed before Soviet troops invaded in 1940. The reopening of the Baltic region gives an old cold war fortress the chance to return to its roots as a commercial harbour.

The push for Russian business might ease the bitterness on both sides that continually soured relations. Latvians like to compare Liepaja with Rotterdam, which quickly became Germany's largest trade gateway after the second world war in spite of bitter wartime enmity.

As Russian destroyers began leaving in 1992, Latvian seamen and others involved in Liepaja were working to ensure the port was used to the country's economic advantage.

Mr Alvars Boja, a merchant fleet captain and director of the local port author-

Matthew Kaminski reports from Liepaja, cold war fortress looking for a commercial future

Refloating Liepaja



ity, led an aggressive drive to lease out berths for private use. Stevedoring and shipping agencies were founded. The largest company, TerraBalt, built a new loading dock and bulk terminal - imports for Russia account for 90 per cent of its business. "The Russian military left, and we really had no choice," says Mr Yuri Solov'yov, a merchant captain who founded TerraBalt.

Starting from nothing, Liepaja handled 1.6m tonnes of cargo last year, up from 1.4m in 1995. The rejuvenation of the local metal manufacturing plant, which exports to reach 500,000 tonnes, would be another boost for business this year.

All Latvian ports enjoyed a boom last year, handling 45m tonnes of cargo - 15 per

cent more than in 1995 - including 27m tonnes of oil and oil products handled at Ventspils, Russia's largest oil export terminal.

The competition from Lithuania's Klaipeda and Estonia's Tallinn is heating up, but Latvian officials were ebullient about last year's result. "More Russian cargo goes through our ports than through all the Russian Baltic ports and Finland combined," says Mr Andris Skele, prime minister.

Backed by the Latvian government, Liepaja was this year granted permission to set up a tax-free zone in the port, specialising in re-export of finished goods. But its future is by no means assured.

"Liepaja is an excellent, deep, ice-free port ideally

located on the Baltic," says Mr Charles Magee, a retired US diplomat who monitors ethnic relations in Latvia and often visits the city. "But, oh God, what it would take to fix that place up."

Half the port cannot be used until abandoned submarines are cleared from the channels. The Russian state owns them, and awarded a two-year contract to a German company, Klenzmet, to bring up the 28 vessels and strip them for scrap. The deal expired in December after 19 had been cleared; the fate of the rest is not clear.

The port channels also desperately need dredging. A Danish ship ran aground recently on a large piece of metal the Soviet navy had dumped.

Liepaja's modernisation plans include new loading docks, railway lines and cranes. Local businessmen have held talks with potential western investors as well as with Russians.

Mr Arkady Volsky, influential chairman of the Russian Entrepreneurs and Industrialists Union, last month called Liepaja's loss "inexcusable" and claimed that Latvia had approached him to sell the port to the Russian government.

Officials in Riga, the capital, quietly dismissed Mr Volsky's claim as Russian nationalist bluster - the port will stay in the ownership of the Latvian state - but were emphatic that their strained political ties with Moscow must not get in the way of business.

Russia lacks better options at home. Icebound St Petersburg has a reputation for corruption and cargo pilferage. The Russian navy controls Kaliningrad's Baltisk, while the shallower commercial port in the enclave capital suffers from poor facilities and rail links.

"When the Soviet Union fell, Russia lost its four major Baltic ports" - Klaipeda, Riga, Tallinn and Ventspils - says Mr Imants Chibulis, president of Trans Liepaja agency, who has been negotiating with Mr Volsky and Russian industrialists on joint projects at Liepaja. "They want to build a new one, but that would take millions. A smaller investment in our new commercial port would solve their problem."

Guernsey

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Madrid may enforce labour reform

By David White in Madrid

Spain's centre-right government appears increasingly likely to be forced to carry out its reluctant threat to impose labour market reforms in an open challenge to the trade unions.

It has been hoping for a voluntary agreement between employers and

unions covering new kinds of work contract and clarifying the conditions for redundancies. The CEOE employers' federation and the two main labour organisations, the General Workers Union (UGT) and Workers' Commissions, are set for a final meeting today. But the outlook appears dim, with the UGT warning that only a fundamental turnaround by employers would break the deadlock. Workers' Commissions accused the CEOE of preferring government-imposed legislation to a compromise settlement.

The government is concerned that investment and job creation decisions are being delayed in anticipation of the outcome. However, unions have blamed government interference for hindering the chances of agreement.

Government and business leaders see reform of redundancy terms as an urgent task to prevent the labour system from standing in the way of new investment, and to create competitive conditions for Spain in the European Union's planned single-currency zone.

The government is concerned that investment and job creation decisions are being delayed in anticipation of the outcome. However, unions have blamed government interference for hindering the chances of agreement.

Mr José María Aznar, prime minister, has repeatedly warned that the government will take the initiative if unions and employers fail to reach an early agreement. But Mr Antonio Gutiérrez, Workers' Commissions secretary-general, said yesterday that a unilateral reform by the government would fail and lead to labour conflict.

The last attempt to ease redundancy conditions three years ago provoked a 24-hour general strike against the then Socialist government. The change, extending the

legally acceptable grounds for workforce cuts, is seen by employers as having had little impact on the real cost of redundancies.

Redundancies accepted as justified carry guaranteed compensation of 20 days' pay per year worked, up to a ceiling of 12 months' pay. But because of legal delays and varying interpretations by judges most companies have tended to pay the rate set for unjustified redundancies: 45 days' pay per year, up to a maximum of 42 months - by far the highest legal rate in the EU.

Trials of Spanish businessmen come to head

By David White

Mr Mario Conde, a former Spanish banker, yesterday sat on the defendant's bench in court for the first time since being ousted as chairman of the Banesto group by the Bank of Spain more than three years ago.

The opening of his trial for alleged misappropriation of Pta600m (\$4.2m) in the "Argentia Trust" case is just the beginning of a long court battle for the 48-year-old financier. The main Banesto case, involving fraud charges to the value of some Pta7.8bn, is still looming.

Banesto, once the coun-

try's largest bank, was found to have hidden losses of Pta605bn. After a rescue, led by the Bank of Spain, it was taken over by Banco Santander in 1994.

The "Argentia Trust" case, in which prosecutors are seeking a seven-year jail sentence, is over payments the bank made to a company based in St Vincent, officially for a series of studies. Mr Conde has said they were for obtaining political support in an attempt to win tax concessions.

Two other celebrated legal sagas involving powerful business figures have also reached a critical stage in

court. Mr José María Enzástiga, whose trial for falsification finally came up last month, 14 years after the government expropriated his troubled Rumasa empire, is now awaiting sentence. And, in a set of actions against Mr Javier de la Rosa, former Kuwait Investment Office agent in Spain, a judge has imposed bail of Pta400m over alleged "financial engineering".

These developments have revived controversy about apparently strange coincidences between high-profile business investigations and other legal cases, giving rise to widespread but unproven

suspicions that the judicial system is being used for political counter-campaigns.

The high points of the Banesto case have coincided with developments in the investigation into the "dirty war" against Basque activists under the previous Socialist government. Socialist politicians have also pointed the finger at Mr Conde for an alleged attempt at political blackmail in 1995 through his relations with a former intelligence chief, who has been charged with stealing secret documents.

Retaliatory legal action is made easier in Spain by a

system allowing private individuals to bring criminal cases. The latest offences came in a privately-initiated case last Friday, involving alleged misuse of funds by Sogecable, which runs Spain's Canal Plus television channel.

Instead of serving notice to lawyers, the judge called in senior executives including Mr Jesús de Polanco, chairman, and Mr Juan Luis Cebrián, chief executive, who hold the same posts in the leading newspaper El País. They were forbidden to leave the country. El País commented that it did "not seem fortuitous" that the

move should come just before Mr Conde's trial. The judge involved, Mr Javier Gómez de Liaño happens to be a younger brother of Mr Conde's lawyer, Mr Mariano Gómez de Liaño, who has himself been under investigation in the Banesto case.

The judicial system's shaky public reputation received a further blow when the government backed off from approving the nomination of a new chief prosecutor at the national court after allegations that he belonged to an obscure order linked to the

Industry resists proposals to limit audience share in European Union

Brussels media plan under fire

By Emma Tucker in Brussels

The European Commission is coming under heavy pressure to abandon plans to harmonise media ownership in the European Union which would impose a 30 per cent limit on the radio or television audience share a company or individual could have in any member state.

The controversial proposals, drawn up by Mr Mario Monti, the single market commissioner, would also introduce a threshold of 10 per cent on the total audience share permissible for "multimedia" enterprises combining television, radio and press.

In a letter to Mr Jacques Santer, president of the European Commission, Sir Frank Rogers, chairman of the European Publishers' Council, says the proposals would be against the ECU's "long-term interests and the interests of a flourishing European media industry".

"The legislation will be very damaging not only to the companies, but to Europe in general," said Sir Frank yesterday.

Presentation of the proposals to the full Commission was scheduled for tomorrow but has been put back for at least a week amid signs that

some Commission officials are unhappy with the draft proposals. They are broadly similar to those rejected by the full Commission last September on the grounds that they were too strict and would have blocked the industry's growth.

But in an attempt to win wider support for his initiative, Mr Monti has introduced a "flexibility" clause which would give member states the discretion to allow their media companies to exceed the proposed thresholds. The clause, which would run for an initial 10 years, could only be applied in the state where the media company has its main

operations. So Mr Silvio Berlusconi, the Italian media magnate, could maintain his more than 30 per cent share in the Italian market but would only be allowed up to a 30 per cent share in any other EU state.

However, officials inside the Commission believe more work needs to be done to resolve exactly how the flexibility clause would apply. For example, it is not clear who would have jurisdiction over the clause if a company from one member state bought into more than 30 per cent of the media interests in another member state.

Mr Monti is determined to press ahead with his proposals in spite of the sensitivity in member states over media ownership. He argues that the many different laws on media concentration across the 15 member states are preventing the free flow of media services inside the single market and are preventing the development of the industry at a European level.

EU call on global warming gases

By Caroline Southey in Brussels

The European Union is to press for dramatic worldwide cuts in greenhouse gas emissions, putting pressure on countries such as the US and Japan to back ambitious targets at the next international summit on climate change later this year.

In a surprise turnaround, EU environment ministers agreed to put forward proposals for the Kyoto summit calling for a 15 per cent cut in emissions of greenhouse gases - which contribute to global warming - by 2010. Observers had not expected an agreement to be achievable when ministers began their meeting on Sunday night.

The proposal raises the stakes for member countries of the Organisation for Economic Co-operation and Development, which are meeting in this week in Bonn to discuss the terms of a protocol for the international summit in December.

The Kyoto gathering will agree the next phase of targets for global cuts in emissions, extending the mandates of the Rio and Berlin summits.

Environmental groups welcomed the decision and said the EU proposal would inject new energy into the Kyoto preparatory talks.

"The EU initiative has come at a critical moment. It has provoked a flurry of interest and could break the stalemate in negotiations," said Mr Andrew Kerr, co-ordinator of European Climate Change for the World Wildlife Fund for Nature, who is attending the talks in Bonn.

The EU ministers agreed to back the ambitious target of 15 per cent, but failed to reach agreement on how the Union would achieve the full target. Ms Margaret De Boer, the Dutch minister, said they had agreed on how to share out the targets between countries for only 10 percentage points of the 15 per cent pledged. The remaining 5 percentage points would be negotiated at a "later date".

A Dutch official said the EU would be committed to the 15 per cent target only if it was endorsed by the Kyoto summit. "If there is a minus 15 per cent figure agreed in Kyoto, then the EU is committed to adopting measures in addition to existing commitments," said Mr Kees Zoeteman, deputy director for environmental affairs in the Netherlands.

But he admitted the likelihood of a deal at the summit on such an ambitious figure was remote. "If Kyoto reaches agreement on minus 10 per cent - which would be a major step forward and far from likely at this moment - we would be ready to implement it," he said.

The deal was struck after the ministers watered down a previous Dutch proposal, cutting the target levels for each country.

EU looks for Russia-Nato accord

By Christia Freeland in Moscow

European Union leaders yesterday expressed the hope that Russia would reach an agreement with Nato before the alliance invites eastern European states to join this summer. "The Russian attitude [on Nato] has not changed, but at the same time there is a strong will to reach a set of conclusions before [the Nato summit in Madrid]," Mr Wim Kok said yesterday.

Mr Kok, the Dutch prime minister, whose country holds the rotating EU presidency, was speaking after a

summit meeting between President Boris Yeltsin and EU leaders in Moscow.

He said the Russian leader had asked Europeans to participate closely in the discussions about relations between Russia and Nato ahead of the US-Russia summit, scheduled to take place in Helsinki later this month. That meeting is expected to focus on Nato and many observers hope it could lay the groundwork for a special agreement between Russia and the alliance.

Mr Kok's comment suggests that Mr Yeltsin is eager to engage Euro-

pean states - which have at times been less insistent on the issue of Nato expansion than the US - as a moderating force in negotiations between Moscow and Washington.

Mr Yeltsin's meeting with EU leaders, originally due to take place at The Hague on February 4 but rescheduled because of his health problems, marks the beginning of a new week in which the president is hoping to re-emerge as the dominant figure in Russian politics.

Later this week Mr Yeltsin will deliver an annual state of the nation address, his longest live public

appearance since August 9, when he was inaugurated. The address has already frayed nerves in Moscow, amid widespread expectation that Mr Yeltsin could use the opportunity to reshuffle the cabinet.

At the weekend, Mr Yeltsin will again be seeking a deal for Russia in the face of imminent Nato expansion plans when Mr Javier Solana, the military alliance's secretary general, travels to Moscow.

European leaders said Mr Yeltsin seemed up to the strain. "The president was in excellent spirits and very active," Mr Kok said.

Latvian port charts new course

The partially sunken submarines that litter the Latvian port of Liepaja are the most dramatic legacy of the Russian navy's reluctant and bitter withdrawal in 1994 from the largest Soviet naval base in the Baltic states.

The port's abandoned residential area resembles a burned out ghetto. Old, stately Swedish-style homes, vandalised by departing Russians, stand empty, their windows shattered. One in three jobs was lost when the military left and the city's population fell by a fifth.

Latvians now pin their hopes for the city's revival on the thriving Baltic Sea trade to and from Russia that could bring back the prosperity the country enjoyed before Soviet troops invaded in 1940. The reopening of the Baltic region gives an old cold war fortress the chance to return to its roots as a commercial harbour.

The push for Russian business might ease the bitterness on both sides that continually sours relations. Latvians like to compare Liepaja with Rotterdam, which quickly became Germany's largest trade gateway after the second world war, in spite of bitter wartime enmity.

As Russian destroyers began leaving in 1992, Latvian seamen and others involved in Liepaja were working to ensure the port was used to the country's economic advantage.

Mr Alvars Boja, a merchant fleet captain and director of the local port author-

Refloating Liepaja



ity, led an aggressive drive to lease out berths for private use. Stevedoring and shipping agencies were founded. The largest company, TerraBalt, built a new loading dock and bulk terminal - imports for Russia account for 90 per cent of its business. "The Russian military left, and we really had no choice," says Mr Yuri Solovov, a merchant captain who founded TerraBalt.

Starting from nothing, Liepaja handled 1.6m tonnes of cargo last year, up from 1.4m in 1995. The rejuvenation of the local metal manufacturing plant, which expects exports to reach 500,000 tonnes, would be another boost for business this year.

All Latvian ports enjoyed a boom last year, handling 45m tonnes of cargo - 15 per

cent more than in 1995 - including 27m tonnes of oil and oil products handled at Ventspils, Russia's largest oil export terminal.

The competition from Lithuania's Klaipeda and Estonia's Tallinn is heating up, but Latvian officials were ebullient about last year's result. "More Russian cargo goes through our ports than through all the Russian Baltic ports and Finland combined," says Mr Andris Skele, prime minister.

Backed by the Latvian government, Liepaja was this year granted permission to set up a tax-free zone in the port, specialising in re-export of finished goods. But its future is by no means assured.

"Liepaja is an excellent, deep, ice-free port ideally

located on the Baltic," says Mr Charles Magee, a retired US diplomat who monitors ethnic relations in Latvia and often visits the city. "But, oh God, what it would take to fix that place up."

Half the port cannot be used until abandoned submarines are cleared from the channels. The Russian state owns them, and awarded a two-year contract to a German company, Klenast Met-alle, to bring up the 28 vessels and strip them for scrap. The deal expired in December after 19 had been cleared; the fate of the rest is not clear.

The port channels also desperately need dredging. A Danish ship ran aground recently on a large piece of metal the Soviet navy had dumped.

Russia lacks better options at home. Icebound St Petersburg has a reputation for corruption and cargo pilferage. The Russian navy controls Kaliningrad's Baltisk, while the shallower commercial port in the enclave capital suffers from poor facilities and rail links.

"When the Soviet Union fell, Russia lost its four major Baltic ports" - Klaipeda, Riga, Tallinn and Ventspils - says Mr Imants Cibulis, president of Trans Liepaja agency, who has been negotiating with Mr Volasky and Russian industrialists on joint projects at Liepaja. "They want to build a new one, but that would take millions. A smaller investment in our new commercial port would solve their problem."

The Financial Times plans to publish a Survey on **Guernsey** on Monday, March 24. For further details please contact: Felicia Kay Tel: 0171 873 4199 Fax: 0171 873 3204 or your usual Financial Times representative FT Surveys

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Madrid may enforce labour reform

By David White in Madrid

Spain's centre-right government appears increasingly likely to be forced to carry out its reluctant threat to impose labour market reforms in an open challenge to the trade unions.

It has been hoping for a voluntary agreement between employers and

unions covering new kinds of work contract and clarifying the conditions for redundancies. The CEOE employers' federation and the two main labour organisations, the General Workers' Union (UGT) and Workers' Com-missions, are set for a final meeting today. But the outlook appears dim, with the UGT warning that only a fundamental turnaround by employers would break the deadlock. Workers' Com-missions accused the CEOE of preferring government-imposed legislation to a compromise settlement.

Government and business leaders see reform of redundancy terms as an urgent task to prevent the labour system from standing in the way of new investment, and to create competitive conditions in Spain in the European Union's planned currency zone.

The government is concerned that investment and job creation decisions are being delayed in anticipation of the outcome. However, unions have blamed government interference for hindering the chances of agreement.

Mr José María Aznar, prime minister, has repeatedly warned that the government will take the initiative if unions and employers fail to reach an early agreement. But Mr Antonio Gutiérrez, Workers' Commissions secretary, said yesterday that a unilateral reform by the government would fail and lead to labour conflict.

The last attempt to ease redundancy conditions three years ago provoked a 24-hour general strike against the then Socialist government. The change, extending the

legally acceptable grounds for workforce cuts, is seen by employers as having had little impact on the real cost of redundancies.

Redundancies accepted as justified carry guaranteed compensation of 20 days' pay per year worked, up to a ceiling of 12 months' pay. But because of legal delays and varying interpretations by judges most companies have tended to pay the rate set for unjustified redundancies: 45 days' pay per year, up to a maximum of 42 months - by far the highest legal rate in the EU.

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EUROPEAN NEWS DIGEST

Paris, Bonn in security talks

Germany and France moved significantly closer yesterday to agreeing a joint plan for developing common European Union defence and security policy. Foreign ministers from the two countries discussed proposals for setting general "strategic" policy on the principle of unanimity - but allowing implementation details to be set according to qualified majority voting among member states.

The plan - which emerged after a meeting between Mr Klaus Kinkel of Germany and Mr Hervé de Charette of France - was described by officials as an important step in discussions on the future shape of the EU. It marks a concession by Germany, which has in the past sought backing for the qualified majority voting - weighted according to the size of members - to be the rule in foreign and security policy.

Mr Kinkel also proposed appointing a "secretary general" to "front" the EU foreign and security policy who would rank below government ministers. It was unclear how much support this proposal would win from France, which wants a high-profile appointment. German-French proposals for a common foreign and security policy are expected to be presented at next Monday's session of the inter-governmental conference preparing for the Amsterdam summit in June. *Ralph Atkins, Bonn*

Party funding trial in France

Two former treasurers of France's Socialist party went on trial in Lyons yesterday over an allegedly covert party funding network dating back to the late 1980s.

Mr Henri Emmanuelli and Mr André Laignel are among 30 defendants in a trial expected to last about a month. The others include numerous elected local Socialist officials and business executives.

Mr Emmanuelli and Mr Laignel are accused of receiving illicit campaign contributions from a company known as Urba which allegedly demanded consulting fees from businesses in return for public works contracts.

Mr Emmanuelli has already been given a one-year suspended jail sentence and a fine of FF930,000 (\$5,250) on similar charges in a separate trial in 1995.

Both men deny involvement in Urba and say they were unaware of illegal activities. *Reuters, Lyons*

Setback for Turkey's PM

The leader of Turkey's biggest leftwing party yesterday snubbed efforts by Mr Necmettin Erbakan, the embattled Islamist prime minister, to seek a political consensus to bolster his government after military commanders on Friday demanded he respect Turkey's secularist system or face "sanctions".

Mr Bülent Ecevit, head of the Democratic Left party, said after meeting Mr Erbakan: "I do not think he is sincere in his search for dialogue." Mr Erbakan's coalition government faces an opposition no confidence motion in parliament today but is expected to survive easily, in spite of mounting opposition.

Demonstrators in Istanbul, many of them women, held a rally commemorating the abolition in 1924 of the Ottoman caliphate by Mr Kemal Atatürk, founder of the secular state. They sang republican songs and chanted anti-government slogans. *John Barham, Ankara*

Shatalin dies at 62

Mr Stanislav Shatalin, a pioneer of efforts to introduce market reforms to the moribund Soviet economy, died yesterday aged 62. He was once described as the St George in Russian efforts to slay the communist economic dragon.

In the late 1980s Mr Shatalin worked closely with Mr Mikhail Gorbachev as he attempted to reform the Soviet economic and political system without breaking it by abandoning a socialist-style concern with full employment, a wide array of government-provided services and a strong role for the state in the economy.

By the early 1990s Mr Shatalin began to advocate more radical solutions. Together with Mr Gregory Yavlinsky, a leading liberal politician, he drew up the "500 Days" programme, a bold, step-by-step plan to shift from central planning to a market economy. The scheme was never implemented and was rendered obsolete by the collapse of the Soviet Union, but its ideas served as an important foundation for measures which a younger team of economists launched in 1992. *Christia Freeland, Moscow*

ECONOMIC WATCH

Finnish finances improve

Good news yesterday on the improving state of Finland's public finances was offset by figures showing unemployment stuck at close to record high levels. According to official statistics, unemployment in January (adjusted to comply with European Union measurements) stood at 16.7 per cent of the workforce. This was down from 17.4 per cent in January 1996, but up significantly from December's 15.1 per cent.

The good news is that the budget deficit was 2.6 per cent of gross domestic product at the end of last year, inside the 3 per cent upper limit set for qualification for European monetary union for the first time since 1991. The Social Democratic-led government is committed to Finnish membership of the Euro from its planned start in 1999. The public debt, measured according to Emu qualification criteria, rose to 56.8 per cent by the end of 1996, also inside the 60 per cent Emu limit.

Sweden's producer price index rose 0.3 per cent in January from December but fell 2.2 per cent from a year earlier, the central statistical bureau reported.

The Dutch trade surplus widened to F13.788bn (\$1.97bn) in November from F11.911bn a year earlier.

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NEWS: EUROPE

Bankers reject rumours of delay

By Samir Iskander and Richard Adams in London



Preparing for Emu

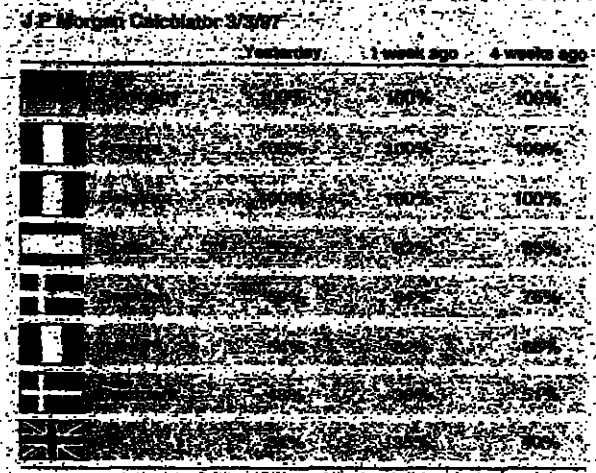
European central bankers yesterday tried to quash speculation that the European economic and monetary union would have to be delayed, while analysts said that the market had overreacted last week. Mr Hans Tietmeyer, president of the Bundesbank, said he did not "see any reason for delay" and that the rumours, which unsettled markets on Friday, were "not in line with reality". Mr Alexandre Lamfalussy, president of the European Monetary Institute, said: "All these market rumours about a delay are unfounded."

Both were speaking at a bankers' meeting in Frankfurt in honour of Mr Wim Duisenberg, head of the Dutch central bank and the designated new head of the European Monetary Institute, the forerunner of the European Central Bank. Worries that Emu would have to be postponed have been mounting for weeks as it has become increasingly apparent that many countries, including Germany, are having difficulty meeting conditions for monetary union, especially when it comes to trimming budget deficits.

On Friday rumours swept European financial markets that a two-year delay in Emu would soon be announced. This forced the Bundesbank and German finance ministry to offer calming statements. Worst hit were bonds issued by the Italian government, which has staked its credibility on its ability to join Emu as a founding member in 1999.

Futures on Italian government bonds (BTPs) fell 2.3 percentage points on Friday, its sharpest single-day fall in 2½ years, but this was largely overdone and unjus-

Emu: who's going to make it



The Emu calculator provided a weekly snapshot of the probabilities, which the financial markets place on selected countries being willing and able to join Germany to launch a single European currency in 1999. Currency strategies at investment bank J.P. Morgan calculated the probabilities from the interest rate swaps market, in which investors agree to pay interest payments on an interest rate swap. Countries are indicated if they have a solid chance of joining the Eurozone by 1999. The probability of joining the Eurozone is shown as being 100% for Germany, France, Italy, and the UK, and 100% for the Netherlands, Belgium, and Austria. Portugal and Greece are shown as having a 100% chance of joining the Eurozone in the coming weeks.

ified, analysts said yesterday. "Now that the dust has settled, we do not understand why the market moved so violently in the first place," said one bond market strategist.

"There is no doubt it was an over-reaction — in the short term it was overdone," said Mr Julian Jessop, chief European economist at Nikko Europe.

Fund managers in continental Europe expressed surprise at the market's fall. "We have not seen any selling [of Italian bonds]," said one. "We have not sold any ourselves, and are not planning to."

A London economist said the rumours that caused the sell-off originated among futures traders. "Traders thrive on volatility," he said. "They need it to make money. There is no other explanation for the rumours."

Italian bonds yesterday recouped some of their losses. The BTP futures contract, listed in London, rose by 0.50 percentage point to

close at 128.00, outperforming similar instruments on German bonds, which rose only 0.20 percentage point.

Mr Jessop, however, believes Italian bonds are not out of the woods yet. He expects BTP prices to drift downward in the longer term.

Italian gross domestic product data released last week suggested little sign of an upturn in the Italian economy, he said, adding that this put pressure on the budget deficit through higher social welfare payments and lower government revenue.

Mr Bruce Kasman, chief European economist at J.P. Morgan in London, said Italy's economic fundamentals were being overshadowed by political considerations over Emu. "Everyone knows the economy is weak, people are much more worried about Emu," he said.

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Further reporting by Frederick Stüdemann in Bonn and Agencies

US wakes up to challenge of Emu

Until recently, Americans have been hard pressed to take European monetary union seriously but this attitude is changing, writes Gerard Baker

Even the best informed Americans have had a hard time taking the notion of European economic and monetary union seriously over the past few years.

After the EU monetary crises of the early 1990s, the conventional view in the US was that the planned single currency was a rather far-fetched notion, of more use in understanding the long-term political ideals of European countries than in suggesting a programme of real economic and monetary changes.

The scepticism was perhaps best demonstrated last week, when a conference on the impact of Emu on US markets planned by the London International Financial Futures Exchange had to be cancelled because of lack of interest among the targeted American audience.

But there is a slowly dawning awareness in official and financial circles that Emu would present significant economic and political challenges for the US.

Government departments are gradually gearing themselves up for changes that might occur and there is real concern about the effect on US economic policy.

The principal worry is about the effect on bilateral economic relations. US administration officials, who have been studying Emu in some detail, have expressed concern privately that EU states' efforts to reduce budget deficits and debts to qualify for Emu membership are prolonging European stagnation,

weakening the global economy.

Administration officials, notably Mr Robert Rubin, the treasury secretary, have also pressed the Europeans to stimulate growth.

The strength of the US economy at present is such that it could almost certainly ride out any weakness even in big export markets such as the European Union. But if Emu were to be delayed for a few years there might be more questions raised in Washington. If the tough

many was insisted that the currency be backed by tough monetary discipline, the dangers of a firm euro seemed much more pressing to US officials. That fear seems to have largely disappeared. The widespread view is that any single European currency that does emerge is unlikely to be especially robust.

Rightly or wrongly, US administration officials appear to have formed the view that the inclusion of weaker European currencies in Emu

employment performance — 11m jobs created in five years — is seen by many as a powerful vindication of the free-market US approach, with highly flexible labour markets, low levels of social protection and limited regulatory interference. What Europe really needs, many economists believe, is not a single currency but a dose of US-style free market reforms.

This leads to one over-arching political anxiety about Emu. There is a sense at the top of the administration that obsession with monetary union has diverted the EU from much more pressing tasks in the post-cold war world.

The most important of these is the integration of eastern European countries. If economic and monetary union succeeds, officials believe, it will make that integration much harder to achieve. If it fails, the demoralising effect on the whole EU could stall integration.

Rather way, officials fear, it could prove to have been an error of historic proportions: the opening to the east occasioned by the collapse of communism closed again. The consequence would almost certainly be prolonged political instability. This is the ultimate fear of many in the US about the EU's current problems. Too often this century, they believe, Americans have been forced to intervene to rescue Europe from chaos. They do not wish to start the next century worrying about whether they might have to do it again.

There is real concern among officials about effect on US economic policy

fiscal conditions in Europe were to continue as the US cyclical expansion began to fade, the effect on US demand would be of greater concern.

The bigger question is what effect a single currency will have once it is operational. This concern comes down to a simple uncertainty: will the euro be a strong currency or a weak one?

Some US economists had expressed alarm that a super-euro, backed by a firm monetary policy by essentially German-led monetary authorities, might supplant the US dollar as the world's reserve currency. This might lead to a rise in long-term US interest rates as the attractions for investors of holding the dollar diminished.

In the early days of Emu preparation, when it appeared that Ger-

will mean the euro will tend to look more like the lira than the D-Mark. The principal risk for the US is that it would undermine the country's trading performance. The US runs a substantial trade deficit with the EU, which is likely to deteriorate further if the euro proves as persistently weak as officials expect.

In these circumstances Washington would almost certainly feel vulnerable to domestic political pressures to take a tougher stand with the EU on trade. One likely response would be to lean more heavily on European governments to undertake the kind of reforms Americans believe Europe needs.

The strong US economic performance of the past six years has created a growing sense of triumphal revivalism. The especially strong

Card groups see euro opportunities

By George Graham, Banking Correspondent

Card payments groups believe that plastic money could be the biggest beneficiary of European monetary union.

"We see tremendous business opportunities because we think plastic will be used a lot more as it will be easier during the transition," said Mr Hans van der Velde, European region president of Visa, the world's largest card consortium, which has set up a business centre to help its member banks with the adaptation.

This is welcome news for banks, which in many respects see the introduction of the planned single currency — the euro — as a costly burden. "As a bank, you have to invest so much money in this that if you can find something to offset at least a part of the cost, you are going to be very enthusiastic about it," said Mr van der Velde.

Visa has nearly 100m cards in issue in Europe, with spending running at around \$240bn a year. But the organisation predicts that spending on cards could triple over the next three to five years.

Some of that increase will be driven by Emu, but Mr van der Velde sees the euro merely spurring a trend, as payments move from the age of paper to a phase in which payments systems become mechanisms for the electronic exchange of information.

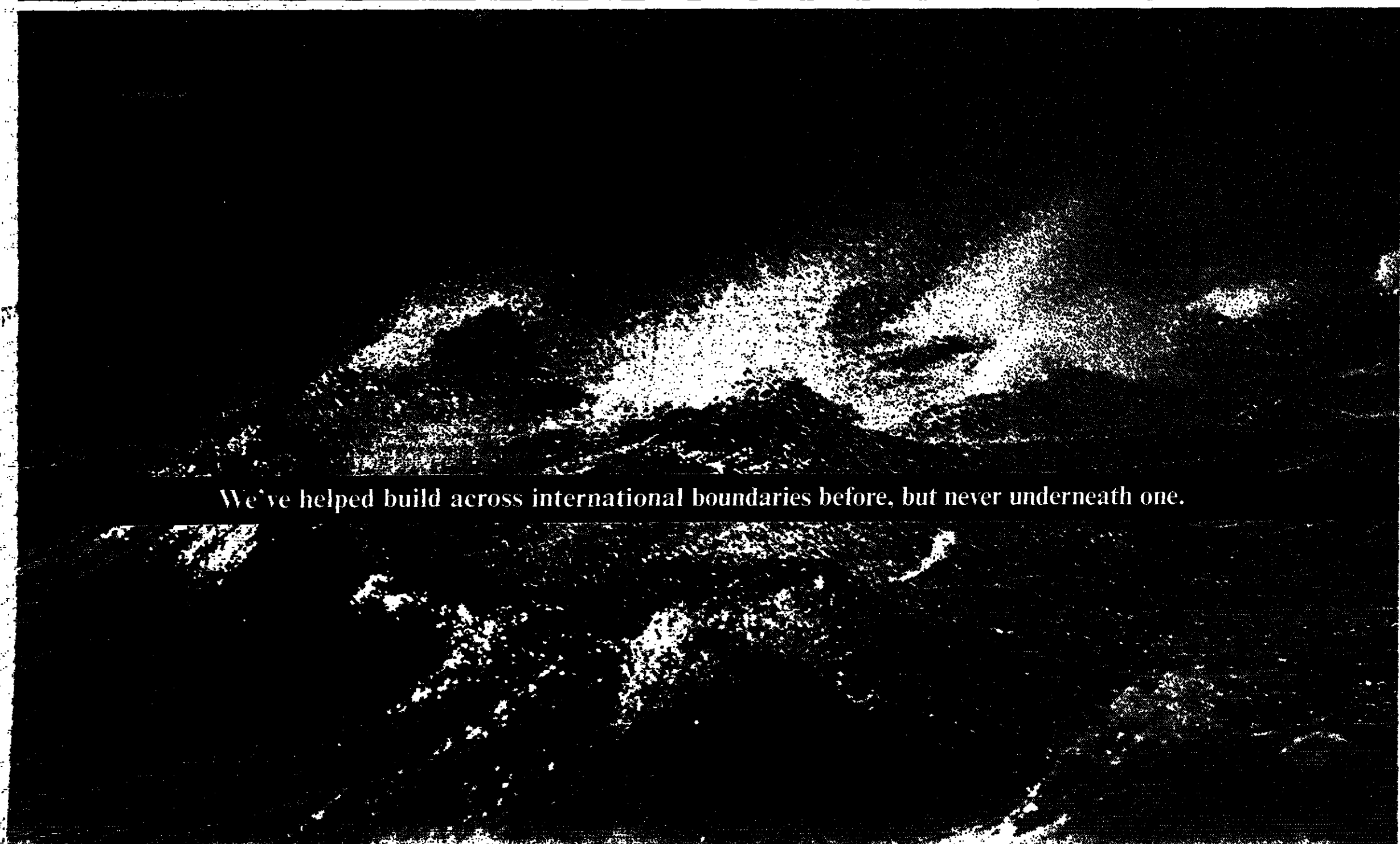
The euro, however, will not only help traditional credit and debit cards, Mr van der Velde believes, but also stimulate appetites for stored value cards, or electronic purses. Visa is conducting trials on a card it calls Visa Cash, which can be preloaded with money and used instead of coins for

small transactions such as bus fares. Mr van der Velde says: "It is an advantage that monetary union and stored value cards are coming along simultaneously, because the single currency makes it necessary to change and stored value makes it necessary to change. Both changes reinforce each other."

Since retailers and vending machine operators will have to change their equipment to cope with the euro Visa sees an opportunity to persuade them at the same time to upgrade them to deal with stored value cards. For Visa itself, con-

verting systems to handle the euro will be a minor task. Where most financial software systems operate with only one base currency, payment card consortia by their nature operate in multiple currencies. At its simplest, that means every credit card payment slip already has a box to stipulate the currency being used, where an ordinary cheque probably does not.

"The technology is very easy. We added 16 new currencies when the Soviet Union fell, without any big disruption, and this will be no harder," Mr van der Velde said.



We've helped build across international boundaries before, but never underneath one.

For centuries, the English Channel has remained the most famous, if not most impervious, boundary in the world. Now the long-awaited undersea rail link between Great Britain and France — the Channel Tunnel — is open for business.

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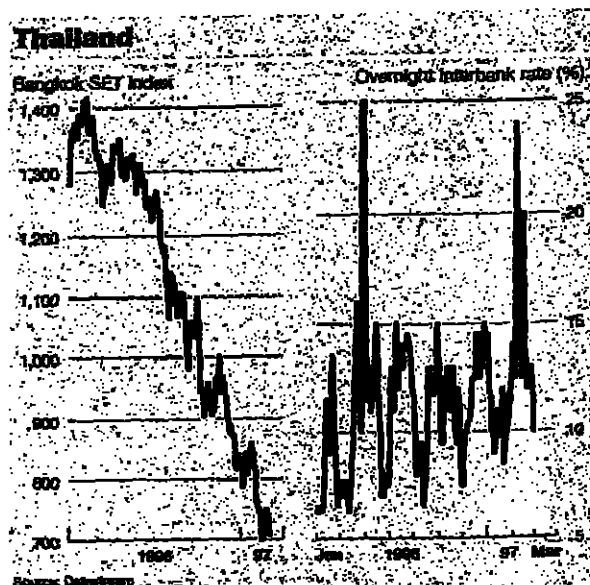
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NEWS: ASIA-PACIFIC



Thai victim of a deadly financial cocktail

By Ted Barnacke
in Bangkok

Even if it had been taken earlier, Thailand's decision yesterday to suspend trading in financial stocks along with a host of other emergency measures might not have been enough to prevent the failure of the country's largest finance house.

For months the talk had been that Finance One would be the first to fall victim to the deadly cocktail of high interest rates, a slowing economy and a growing volume of bad debt.

Few expected it to be Finance One, the largest of a number of Thai finance houses concentrating on lending to people and companies who find difficulty in borrowing from banks. Led by Mr Vin Chakrapak, in the early part of the decade the company was a darling of the domestic financial community after a series of audacious takeovers and acquisitions.

But despite its \$3.8bn in assets, the central bank was forced to back a rescue of Finance One by Thai Danu Bank at the weekend. The affair exposed Thailand's policy dilemma: how to ensure macroeconomic stability without damaging the country's financial system.

The mechanism to achieve this balance has been high interest rates. With export growth slowing and a high current account deficit prompting continuing market jitters, the central bank has raised rates sharply to protect the currency — the baht — from speculators and to keep foreign capital flowing in.

But high rates and other tight money measures have made it difficult for over-extended property developers to repay loans and have pushed funding costs for financial institutions to dangerous levels.

"The need to defend the currency with high interest rates is really straining the financial sector," said Mr

George Morgan, Thailand Representative of HC Asia and president of the foreign brokers group. "We're moving towards a scenario of finance company meltdown which will put more strains on the banks."

Finance One was the first casualty of the meltdown. While 47 per cent of its loans are in the two problem areas of property and hire purchase — high for the industry — its non-performing loans totalled only 4.8 per cent of total loans, well below the industry average.

Depositors have begun a flight to quality, withdrawing their money from finance companies and placing it with the bigger commercial banks. This has turned to the expensive and volatile interbank and inter-finance markets — where interest rates have reached as high as 30 per cent.

Analysts say yesterday's emergency measures, requiring banks and finance companies to increase provisions for bad debts and raise their capital base, would not have prevented Finance One from failing. The central bank-backed merger between Finance One and Thai Danu Bank is not likely to be the last. There are many more troubled finance companies waiting in the wings.

The troubles have been brought on in part by a stock market that has sunk by 44 per cent over the past 14 months, the result of plunging economic growth and corporate earnings.

There is concern now that changes to strengthen corporate governance and shareholder rights, if adopted, the moves would increase disclosure requirements by companies, make managements more accountable and provide greater regulatory clarity.

Seeking to revamp the country's system of corporate regulation, the Securities and Exchange Board of India, the market regulator, published a new takeover code earlier this year. It is now being consid-

China joins forum on forex

By William Dawkins in Tokyo

The first regional financial forum to include China will convene today in Japan to discuss greater central bank co-operation in the foreign exchange markets.

China is the world's second largest holder of foreign exchange reserves, \$105bn, after Japan, which has \$218.2bn.

Officially dubbed the "six markets meeting," the US-Japan initiative will bring together top central bank and finance officials from the US, Japan, China, Hong Kong, Singapore and Australia.

Japanese officials hope to discuss possible joint action to avert the repetition of a Mexican-style 1995 currency crisis in Asia, and are eager to use the meeting to draw China more into regional economic co-operation.

The six will also discuss financial deregulation and economic policy. The forum, intended to meet regularly, is seen by economic analysts as another mark of international acceptance of Asia's growing economic importance.

"It is a recognition of the coming of age of Asian markets," said Mr Robert Feldman, chief economist at Salomon Brothers Asia.

Like other Asian regional groups, the six markets meeting will concentrate on building contacts and consensus, rather than concrete conclusions.

US officials have indicated that they want to stress economic deregulation in the region. That includes Japan's plans for a "big bang" financial deregulation by 2001, also to be the subject of separate talks between Mr Lawrence Summers, deputy US treasury secretary, one of the two US delegates to the meeting, and Mr Hiroshi Mitsuoka, the Japanese finance minister.

Before leaving Washington, Mr Summers said financial reform was the best way to sustain a dynamic Japanese economy.

Yesterday's report, proposed in a government committee study, follows increasing criticism of the management style of India's largely family-dominated corporate sector and its treatment of minority shareholders.

The committee has recommended the establishment of a new company law tribunal, a quasi-judicial body to monitor and enforce corporate regulation. This tribunal would have greater powers than the existing company law board and be independent of the government.

The committee recommended the mandatory dis-

Mishandling of transition would deal severe blow, says US Summers warns China on HK

By John Fiddling
in Hong Kong

A senior US treasury official yesterday warned Beijing that mishandling of Hong Kong's transition to Chinese sovereignty would deal a severe blow to its own interests as well as to the territory's economy.

"If it encroaches or is perceived to encroach upon Hong Kong's autonomy, Hong Kongers have the ability to make such actions extremely costly — either by leaving Hong Kong or by transferring their funds," said Mr Lawrence Summers, deputy treasury secretary. "Such changes could be disastrous for the Hong Kong economy, but the loss to China would be immense."

The warning was one of the clearest statements so far of the importance Washington is attaching to Hong Kong's return to China in July.

In addition to the significance of its economic interests in Hong Kong, which include accumulated investment of some US\$14bn, the US views the handling of the transition as a gauge of Beijing's moves towards reform and towards relations with the world community.

Mr Summers cited positive steps in the transition process, including last month's announcement by Mr Tung Chee-hwa, the territory's leader, that he would retain all top policy officials.



Tough words from Lawrence Summers (left) and soothing words from Donald Tsang

It adds weight to the reassurances that have been given at the highest political levels that Hong Kong's sound financial and economic system will remain intact.

But the US official said that China's plans to replace the territory's existing legis-

lature and to amend laws concerning civil liberties had raised concerns.

"It is essential that China allows Hong Kong to be Hong Kong," he said. "If there is to be some convergence of systems over time, it would be beneficial to all involved that China's system

becomes more like Hong Kong's."

In addition to accumulated Hong Kong investment of almost US\$700bn in China, Mr Summers said the territory provided a source of technical expertise in economic and financial management.

"The majority appears to view transition as something that China is doing to Hong Kong. But the reversion process... will have just as big an impact on China."

Mr Summers underlined the importance of free information for the Hong Kong system. Dismissing the view that politics and economics could be separated, he said: "There is no firewall between economic freedom and freedom in its many other dimensions. The free flow of information is essential to free society, to free markets, and to a strong financial system."

China has rejected criticism of its handling of the transition, describing it as an internal affair. But the US administration has signalled that the handover will be a factor in determining bilateral relations. "We will be watching events in Hong Kong closely," he said.

Tsang dismisses doom merchants

Hong Kong's financial secretary is confident ahead of next week's budget

By John Fiddling and
Guy de Jonquieres

Mr Donald Tsang, Hong Kong's financial secretary, is at the sharp end of one of the most sensitive aspects of the territory's return to Chinese sovereignty — the defence of its economic autonomy.

Confirmed last month in his post, he must steer the economy through the transition. It will not be easy.

Mr Tsang has voiced his own fears over Beijing's plans to replace the territory's elected legislature and amend its laws on civil liberties. But in an interview ahead of his budget next week, which will span the July handover, he sought to

dismiss gloomy scenarios.

The Chinese were not ogres, he said, insisting that Beijing was excessive. They had a vested interest in Hong Kong's success and a working knowledge of what made the territory function. China's President, Jiang Zemin, whom he met last year, "clearly understands these issues."

Preparations for the budget, said Mr Tsang, were "unexpectedly smooth" and he had been given a free hand in drawing up his plans. "I did not feel any imposition or coercion."

Although Beijing had criticised increasing welfare expenditure, the Chinese experts involved in the budget negotiations were

"exceedingly cautious" in making suggestions.

The colony's economic system, said Mr Tsang, would be entrenched by its membership of international economic bodies. It is a full member of the World Trade Organisation and is seeking increasingly close links with the Organisation for Economic Co-operation and Development, where it is on several committees.

Some Hong Kong officials say full OECD membership has been discussed. But Mr Tsang ruled that out, noting the organisation only admitted sovereign states.

On the domestic front, Mr Tsang was positive about his relationship with Mr Tung Chee-hwa, the territory's future leader, despite differ-

ences over Beijing's plans for the territory's legislature and civil liberties laws. "My relationship with C.H. will be the same as with the governor... He will have my 100 per cent loyalty."

One possible source of tension is industrial policy, where Mr Tung has signalled sympathy for greater support for manufacturing. Mr Tsang saw no conflict over this issue or over signals that Mr Tung might assume the financial secretary's power to appoint the head of Hong Kong's *de facto* central bank.

Such a change, said Mr Tsang, would not undermine his own position. It would merely demonstrate the importance of the monetary authority, which manages

the territory's foreign exchange reserves, now more than US\$64bn.

Despite Mr Tsang's optimism, he identified areas of concern. One was the risk that Hong Kong might sacrifice its autonomy, whatever its institutions' strength. He also accepted that renewed inflationary pressures could take the shine off robust growth in GDP, expected to reach 5.5 per cent this year.

In the absence of monetary tools, his best remedies included an increase in land supply and moves to remove labour market bottlenecks.

Such cyclical problems are familiar concerns for any finance secretary. Unfortunately for Mr Tsang, they pale beside the bigger challenges of the transition.

India seeks to boost rights of shareholders

By Tony Tassell
in New Delhi

The Indian government has proposed wide-ranging regulatory changes to strengthen corporate governance and shareholder rights. If adopted, the moves would increase disclosure requirements by companies, make managements more accountable and provide greater regulatory clarity.

Seeking to revamp the country's system of corporate regulation, the Securities and Exchange Board of India, the market regulator, published a new takeover code earlier this year. It is now being consid-

ered by the government.

Yesterday's report, proposed in a government committee study, follows increasing criticism of the management style of India's largely family-dominated corporate sector and its treatment of minority shareholders.

The committee has recommended the establishment of a new company law tribunal, a quasi-judicial body to monitor and enforce corporate regulation. This tribunal would have greater powers than the existing company law board and be independent of the government.

The committee recommended the mandatory dis-

closure of the turnover of business divisions within a company, the end-use of funds raised from the capital market, a new standardised cash flow statement, earnings per share, the level of foreign holdings of the share capital of a company and a more detailed breakdown of debt exposures than currently required.

The changes would also limit loans to directors to education, housing and medical assistance and require the disclosure of relatives of directors working at a company. The committee recommended companies be allowed to issue derivatives and options.

Underpants debate strips politics bare

Peter Montagnon on unedifying arguments and proportional representation in New Zealand

In most countries, discussion on such a serious issue as the introduction of proportional representation would revolve round weightier matters than the price of a pair of underpants.

But New Zealand, which prides itself on a serious approach to economic and political reform, has surprised itself with a debate at precisely such a trivial level.

The opposition Labour party seized with glee recently on revelations of sleaze concerning Mr Tukoroangi Morgan, an MP from the New Zealand First coalition partner. Mr Morgan was discovered spending funds belonging to a government-financed Maori television station on clothes from a fashionable Auckland store, including a NZ\$88 (US\$82) pair of boxer shorts.

The affair has obsessed New Zealand not only because it raises concern about Mr Morgan's future as an MP when a by-election could wipe out the fragile majority of the National party/NZFP coalition. It also appears to set an unedifying tone for the country's first government under proportional representation.

In last autumn's election, proportional representation gave the country broadly what it wanted: a centre-right government which is slightly softer on social policies than the previous National party administration. But the new government's birth was painful, marked by personality clashes.

"A lot of New Zealanders thought proportional representation would bring in more openness, greater transparency, solutions to problems and more consensus," says Mr Max Bradford, minister of labour and energy. "Most of these hopes have been dashed. Parliament is incredibly more fractious than it ever was."

Businessmen say coalition government has blunted decision-making on further

deregulation, while the opposition sees its task as destroying the coalition by driving a wedge between its two parties. Mr Jim Bolger, prime minister, complains that it is focusing on issues, such as Mr Morgan's shopping spree, which are "very much on the small scale in terms of government's overall responsibilities."

But Labour is still seething over the coalition negotiations. It had itself expected to form a coalition with NZFP, whose leader, Mr Winston Peters, held strong appeal to traditional Labour voters. But when the result left Mr Peters holding the balance with 13 per cent of the vote, he toned down most of his policies.

He stopped calling for a lower New Zealand dollar and restrictions on foreign investment and stitched up a coalition deal with the National party which gives him a prominent role as treasurer and deputy prime minister. The deal is all the more remarkable because, before he founded NZFP in 1993, Mr Peters was thrown out of the National party cabinet after policy disagreements with Mr Bolger. Before the election, he had said he would never work in the same government as Mr Bolger again.

Compromises needed to reach the coalition agreement included deferral of tax cuts scheduled for this year and increased spending on health and education. Mr Bolger says that is justified because coalitions are about convergence of ideas.

Yet for many analysts the horse-trading is proof of little more than an opportu-

nistic, and possibly temporary alliance between two ambitious men. Mr Peters wants to become prime minister; Mr Bolger is determined to stay in the post at least until autumn 1999 when President Bill Clinton is to visit New Zealand.

Mr Bolger had to form an alliance with NZFP to stay in power, says Ms Helen Clark, Labour leader. "Bolger knows of no way to rule except by mateship," she says. "What Peters wants, he gets." That points to more deals which backfire, like funding for Maori television.

It also suggests a focus on personalities rather than policies. At centre stage is the enigmatic Mr Peters, a sharp-minded lawyer who knows how to charm voters.

Long silences in conversation betray a desire to stay a little away. He was stopped talking to the local press and in an interview with the Financial Times was even reluctant to spell out what his party stood for.

For some the strangeness of such an elusive person on politics is disturbing. Stability in coalition governments comes when a "rational and centrist" party — like the Liberal Democrats in the UK — holds the balance, says Ms Clark. The snag is that the two largest parties, National and Labour, occupy the centre stage. To govern, either must seek out a junior partner which will inevitably represent special interests.

Most analysts expect the coalition to hold through its three-year term, not least because it is based on a detailed policy document. By then NZFP will be able to demonstrate a responsible track record, Mr Peters says.

According to Mr Peters, it will not remain for long the junior coalition party. But if it is to keep growing, he will still have to cast around for a distinctive way of appealing to voters. Proportional representation has a long way to go before it brings clarity and stability.

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NOTICE IS HEREBY GIVEN pursuant to the Indenture dated as of June 30, 1995 (the "Indenture") between Alberto-Culver Company (the "Company") and Bankers Trust Company, as Trustee, and in accordance with Section 1.2(b) thereof:

- On February 20, 1997, the Company paid a 100% stock dividend on the Company's Class A and Class B Common Stock to holders of record as of the close of business on February 3, 1997;
- The Conversion Rate has been adjusted pursuant to Section 1.2(b)(1) of the Indenture to reflect the 100% stock dividend; and
- The adjusted Conversion Rate is 61.776 shares of Class A Common Stock per US\$1,000 principal amount of Securities (equivalent to a Conversion Price of approximately US\$16.1875 per share).

Capitalized terms not defined herein shall have the meanings assigned to them in the Indenture.

ALBERTO-CULVER COMPANY
By: William J. Cernigli
Senior Vice President,
Finance and Controller
Date: February 25, 1997

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Industry growth buoys economic activity

By Gerard Baker
in Washington

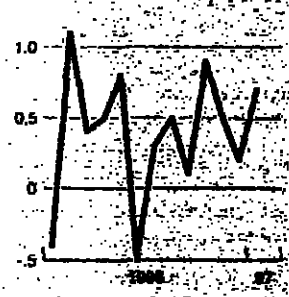
Overall economic activity in the US continues to strengthen, buoyed by faster manufacturing growth, rising personal incomes and consumer spending, and an increase in construction, reports indicated yesterday.

Manufacturers' reported an acceleration in activity in February, according to a regular survey by the National Association of Purchasing Management. The NAPM's purchasing managers' index reached 53.1 per cent last month, up from 52.0 per cent in January. A figure above 50 suggests the manufacturing sector is expanding.

The improvement was driven by strong increases last month in the number of manufacturers reporting a faster pace of production and new orders. The NAPM survey has pointed to a gradual strengthening of the manufacturing sector over the last year and the survey suggests improvement is continuing in 1997.

US consumer spending

Month on month % change



Source: Department of Commerce

"The past relationship between the purchasing managers' index and the overall economy indicates that the average index for January and February, if continued for all of 1997, approximately corresponds to a 3 per cent increase in real gross domestic product for 1997," said Mr Norbert Ore, chairman of the NAPM's business survey committee.

The report also indicated a steady rise in prices paid by manufacturers. The NAPM price index reported a price rise in February for the third consecutive month. It was the first time since 1993 that manufacturers had reported price increases for three straight months.

A separate report published yesterday by the Commerce Department suggested the broadening economic confidence among US consumers led to a sharp rise in spending in January. Consumer spending increased by 0.7 per cent from a month earlier to a seasonally adjusted annual rate of \$5,900bn, the strongest monthly gain since last October.

The spending increase was largely attributable to a rise in disposable incomes in January. Incomes from wages, salaries and all other sources rose by 0.3 per cent from a month earlier. The savings rate was unchanged at 5.4 per cent.

The longer term pace of growth in personal incomes and spending is clearly accelerating. In the three months to January, spending grew at an annual rate of 5.2 per cent, as incomes increased by 5 per cent. A year ago that three month trend pointed to spending growth of 4.1 per cent on income gains of 5.5 per cent.

The Commerce Department also reported yesterday that construction spending rose by 0.4 per cent in January after a fall of 0.9 per cent in December as private sector non-residential building jumped 2.9 per cent.

The overall implication of the reports is that the US economy is maintaining its robust pace of expansion in the first quarter of 1997. Though the growth rate is likely to be slightly slower than in the last three months of 1996, the Federal Reserve may still judge it too fast to be consistent with low, stable inflation.

If statistics in the next month confirm the continuing strength, an increase in short-term interest rates by the Fed will become more likely. That could come either at the next meeting of the central bank's open market committee later this

US cleans up trade mission rules

By Nancy Dunne
in Washington

The US commerce secretary, Mr William Daley, yesterday sought to move his department away from the campaign finance scandal enveloping the Clinton administration by announcing a comprehensive policy on participants in trade missions.

Commerce department trade missions, suspended for a 30-day review after Mr Daley took office, will be resumed under a new policy which "expressly puts partisan political considerations off limits", he said. Trade missions will be widely publicised, and participants will be selected on the basis of specific criteria, mostly by the department's career officials.

The department has been fighting off charges that places in trade missions were given to Democratic party contributors. It has had to make public letters to Mr Ron Brown, the late commerce secretary, and other officials from political friends seeking places on missions.

Mr Daley refused to explain or excuse the past, noting that several investigations were dealing with the charges. However, his new policy included "an express prohibition against consideration of referrals from political parties or references to political contributions or political activities". Any such correspondence would be returned to the senders.

He said trade missions must continue to counter the help given to foreign companies by their heads of states and senior ministers. He specifically cited a mission to Asia by Chancellor Helmut

Kohl of Germany, during which the Philippines awarded a \$600m power plant contract to Siemens, and a trip to India by the Canadian prime minister, Mr Jacques Chretien, which resulted in about \$2.5bn in contracts.

"Our principal economic competitors - France, the UK, Germany, Japan and Canada - spend up to 10 times as much as the US on export promotion," he said. "We cannot - and we will not - unilaterally withdraw in a world in which our economic competitors are using all the tools at their disposal to pursue market opportunities aggressively for their companies."

Commerce department trade missions are run for a number of reasons. Some are simply seeking sales, others seek access for US business through the removal of barriers to trade and investment. Other missions seek to advance economic and foreign policy objectives.

In future the purpose of missions will be made clear and be widely publicised, according to the new policy statement. The process for recruiting participants would be "clear, objective and transparent... We will ensure that, in every case, there is a demonstrably legitimate business purpose for the inclusion of each private sector participant that is consistent in every respect with the mission statement."

Companies which had business pending with the department would not be included if it apparently presented a conflict of interest. If they were seeking to market goods or services, they must be able to certify they contained at least 51 per cent US content.

Airline's big headache from small jet

Richard Tomkins on American Airlines' dispute over regional aircraft

The passenger aircraft of the future is already flying in the US - and it is not super-sonic, super-jumbo, or super anything else.

The jet is just a 50-seat puddle-jumper carrying passengers between small towns and cities. Yet this seemingly insignificant aircraft lies at the heart of a dispute threatening American Airlines, the second biggest US carrier, with a potentially devastating strike.

Last week a Presidential Emergency Board started meeting in Washington in an attempt to find a solution to the row between American Airlines and its 9,000 pilots. But the clock is ticking: the board has only 60 days to do its job.

On the face of it the dispute is over pilots' pay. But a more intractable issue is who gets to fly the new generation of small jet aircraft, known as regional jets, that are appearing on less heavily travelled routes.

Traditionally, lightly used routes have rarely generated enough traffic to justify the use of big, expensive jets. Instead, US airlines - or, more often, their commuter affiliates - have serviced the routes with small, propeller-driven aircraft.

Unfortunately, US passengers dislike turbo-props, seeing them as cramped, noisy and unsafe. Hostility became acute after the crash of an American Eagle ATR-72 turbo-prop aircraft in Indiana in 1995, which killed 68.

Such is the antipathy towards turbo-prop aircraft that many people will drive long distances to avoid using them. Some towns subsidise



Up and away: Brazilian aircraft maker Embraer's EMB-145 is competing for a share of the booming regional jet market

airlines to provide them with a loss-making jet service for fear that a turbo-prop service would hinder their economic development.

Late in 1992, however, Bombardier, the Canadian aerospace and transit equipment group, opened the way for a minor revolution in air travel when its Canadair subsidiary launched a 50-seat jet called the Canadair Regional Jet.

Because the aircraft was a stretched version of the group's existing Challenger business jet, Bombardier was able to cut research and development costs and offer the new aircraft at an economic price.

The current list price of US\$41m is about half that of a Boeing 737, which seats more than 100.

The Canadair Regional Jet has proved a big success for Bombardier: the company has already delivered 154 around the world and has firm orders for another 46.

Last year Embraer, the Brazilian aircraft maker, jumped into the same market niche by launching its rival 50-seat EMB-145.

Then, last month, Bombardier announced a \$475m programme to develop a 70-seat version of the Canadair Regional Jet, the Series 700.

Bombardier, which also makes the world's best-selling turbo-prop, the de Havilland Dash 8, says the days of propeller-driven aircraft are far from over. Mr Pierre Lortie, president of Bombardier's regional aircraft divi-

sion, says jets only really score over cheaper turbo-props on longer journeys, when their greater speed and productivity come into play.

"Basically it's determined by distance," Mr Lortie says. "Any flight of an hour or less should remain with turbo-props, and any flight of over an hour should be a jet."

Even so, regional jets are quickly gaining ground in the US and elsewhere. Their range means they can bypass traditional hub-and-spoke operations and offer point-to-point service on long, thinly travelled routes that were previously unprofitable.

Air Canada, for example, has used its fleet of Canadair Regional Jets to open up 11

routes between Canada and the US in the last two years.

Mr Walter Coleman, president of the Regional Airline Association, a US industry body, says the new jets already account for 4 per cent of the US fleet of 2,300 regional aircraft. The proportion is expected to leap to 10 per cent by the end of the decade.

American Airlines is feeling the effects because the commuter affiliates of Delta Air Lines and Continental Airlines, two of its biggest rivals, have emerged as some of the most enthusiastic buyers of these regional jets.

In order to compete, American Airlines' own commuter affiliate, American Eagle, needs to start flying them too.

American Airlines' pilots are strongly opposed to this as they fear the proliferation of small-jet routes will reduce the number of services flown by big aircraft, taking away their jobs. Instead, they want to fly the small jets themselves; but since they are paid about three times as much as American Eagle pilots - \$130,000 a year on average, compared with \$35,000-\$45,000 - American Airlines says this is not viable.

The airline argues that the new jets will eventually create more jobs for its pilots by feeding more passengers into its network but it has failed to convince its pilots. Unless the Presidential Emergency Board can do better, these little aircraft could soon prove to be the source of a disproportionately large amount of trouble.

AMERICAN NEWS DIGEST

Peru, Cuba in hostage talks

President Alberto Fujimori of Peru held talks in Havana yesterday with Cuba's President Fidel Castro on a possible asylum destination for Peruvian rebels holding 72 hostages at the Japanese ambassador's residence in Lima.

The Peruvian leader, whose visit was not announced in advance, flew in from the Dominican Republic, where he had held conversations on Sunday with his counterpart, Mr Leonel Fernandez, about possible solutions to the crisis.

Peru has been consulting several Latin American and Caribbean governments to see whether they might be willing to grant asylum to the members of the Tupac Amaru Revolutionary Movement (MRTA) commandos who took over the residence in Lima on December 17. The rebels have been demanding the release of more than 400 of their comrades from Peruvian jails. Mr Castro has used his government's historic links with Latin American leftwing guerrilla movements in the past to help solve sieges and hostage incidents.

Pascal Fletcher, Havana

Embargo 'hits Cuban health'

The tightening of the US embargo against Cuba in 1992 has had a devastating impact on the health of ordinary Cubans, with patients often denied essential drugs and doctors performing procedures without adequate equipment, according to a study released yesterday.

The Washington-based American Association for World Health said the impact had been particularly severe on women, children, the elderly and people with chronic diseases.

The study was based mainly on a trip to Cuba last October by nine medical experts, who visited 46 patient care facilities and 15 non-governmental organisations in Cuba.

The US State Department has said Cuba's health problems are caused primarily by what it calls Cuba's failed system.

AP, Washington

Venezuelan bolivar slips

After nearly a year of unprecedented stability, the Venezuelan currency has depreciated from 470 bolivars to the US dollar early last week to 484 bolivars yesterday. Market sources said the bolivar lost ground in response to recent pay deals which it was thought would endanger the government's 25 per cent inflation target.

The price basket of Venezuelan crude oil, the country's main export, also decreased from \$21.53 a barrel in January to \$18.88. Economists said a drop in oil prices could force the government to adopt another package of austerity measures in 1998.

The bolivar's depreciation amounts to only 2.8 percentage points, but analysts said it marked a new central bank disposition to reduce its interventions in the currency market and allow the bolivar to depreciate more rapidly. Accumulated inflation since last April, when the currency was floated, amounts to 47 per cent and the central bank expected a monthly currency depreciation of 1 per cent.

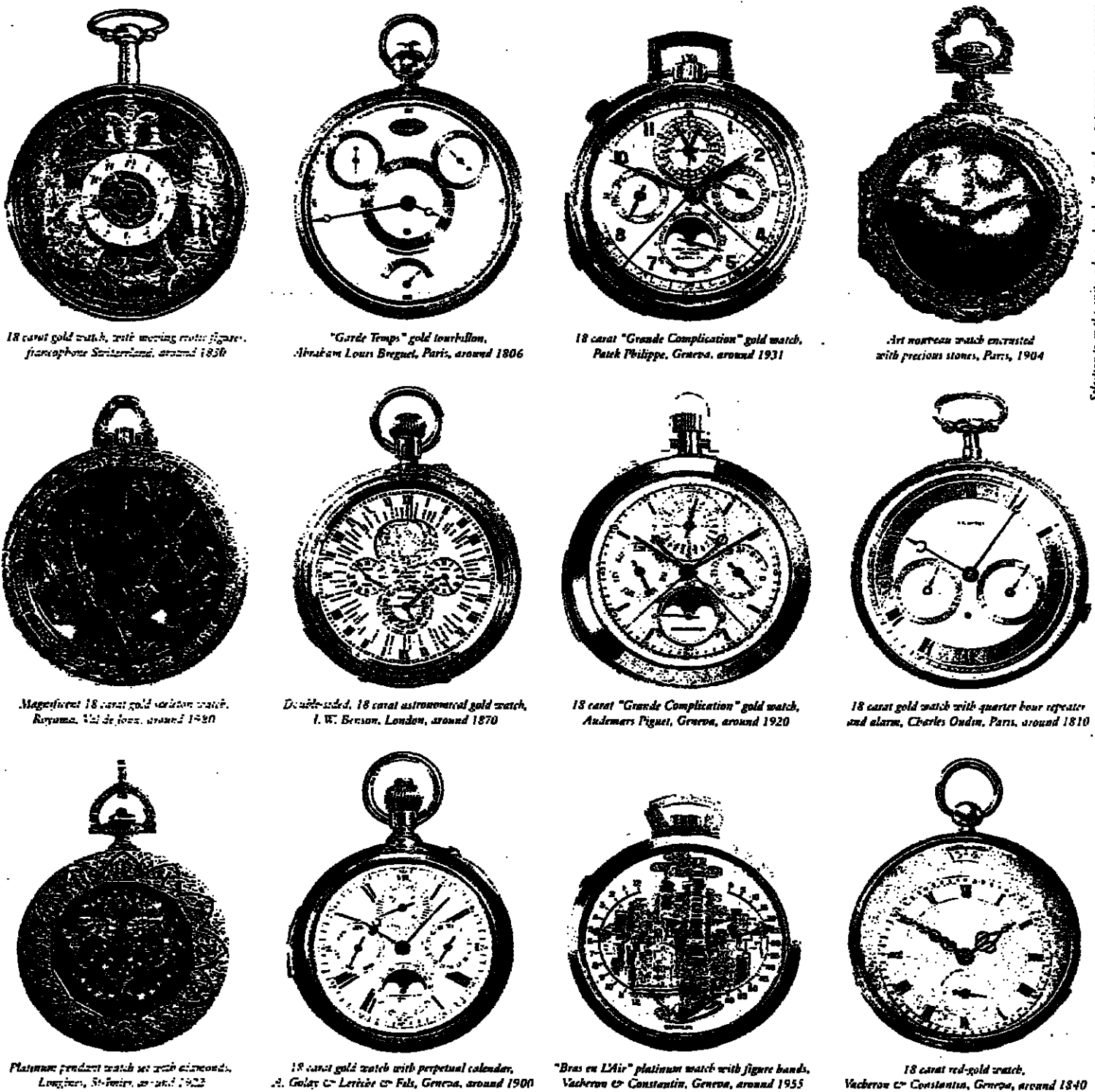
Raymond Collin, Caracas

Toronto smokers fuming

Canada's toughest anti-smoking law took effect in Toronto yesterday, infuriating bar and restaurant owners who face heavy fines and fear customers will flee to smoker-friendly havens in the suburbs.

The law prohibits smoking at all 4,500 bars and restaurants in Canada's largest city unless owners create sealed, separately ventilated smoking rooms. Only two establishments have applied for building permits to comply with this provision.

Smokers who defy a request to stop smoking and owners who refuse to post no-smoking signs face fines of



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India to get world-class tractor plant

By Peter Marsh

New Holland, the world's second biggest maker of tractors, is investing \$50m in a plant in India in a move aimed at introducing some of the concepts from car manufacturing into the agricultural equipment industry.

The plant will make "world tractors", based on standard designs devised in the west, for export as well as being sold in the domestic market.

It is the first effort by one of the world's four big makers of tractors to set up a factory in India - seen as a potentially vast market for agricultural equipment - under its complete control.

The tractor industry in India is now dominated by local manufacturers producing machines that, by western standards, are low in power and technology, and which cost an average of about \$6,000. That compares with the \$30,000-\$50,000 price tag of tractors sold in western Europe and the US.

Mr Umberto Quadrino, chief executive of New Holland, which is 69 per cent owned by Fiat of Italy, said the Indian project was a "breakthrough" with "tremendous opportunities" for exports.

In negotiations with the Indian government, New Holland was given permission for 100 per cent ownership of the plant, instead of the normal practice in Indian manufacturing ventures, where foreign investors share the stake with a local company.

Other companies have also successfully argued that their industries are strategically important in helping India's economy and have

won the right to set up 100 per cent owned manufacturing ventures. These include Hyundai in cars and Volvo in trucks.

New Holland's plant near New Delhi will make tractors based on designs it already produces in Italy, Mexico and Turkey. However, they will be modified to provide "two frills" machines for the Indian market.

Although initially the tractors will be mainly for India, ultimately the machines could be sold with some modifications to other countries both in Asia and further afield. Mr Quadrino said India's low manufacturing costs would be a positive factor in helping exports.

The factory is expected to start up in 1998, when it should make about 18,000 machines a year. At full capacity, around 2003, annual output will be about 35,000 tractors - making it among New Holland's biggest plants. Employment should reach about 1,000 by early next century.

Farmers in India buy some 300,000 tractors a year - compared with tractor sales of some 450,000 a year in western Europe, North and South America and eastern Asia excluding China.

However, models in India mainly use 1980s technology, sometimes based on licences agreements from the rest of the world's big four tractor makers - Agco, Deere and Case, all of the US.

New Holland will make 35-75 horsepower machines at the factory that are slightly more powerful than most Indian tractors and sell at 10 per cent or so above current prices in India.

New Holland warning on UK investment, Page 8

Portugal pins hopes on Algerian gas supplies

Pipeline project will offer a competitiveness boost and aims to provide 10% of primary energy needs. David White reports

Gas has begun flowing in Portugal in one of the largest industrial projects ever undertaken in the country.

The gas comes along a spur of the Maghreb-Europe pipeline, which last year began bringing supplies from the Hassi R'Mel field in the Algerian Sahara through Morocco and across the Strait of Gibraltar to Spain.

With financial support from Brussels, Portugal has invested \$1bn out of the total \$2.5bn which has gone into the 2,300km pipeline.

The last country in the European Union to obtain supplies of natural gas, Portugal views the inauguration as strategically significant on three levels - providing industrial users with a competitive energy source, promoting regional development, and creating the country's most important single economic link with its Iberian neighbour and with north Africa.

Remarkably for Portugal, its part of the pipeline project has been finished on time and within budget. Total investment by Transgas, the Portuguese partner, owned by mostly state-owned shareholders, will rise to about \$1.3bn when storage facilities in the centre of the country are completed. A further \$1.2bn is expected to be spent on local gas distribution and power stations.

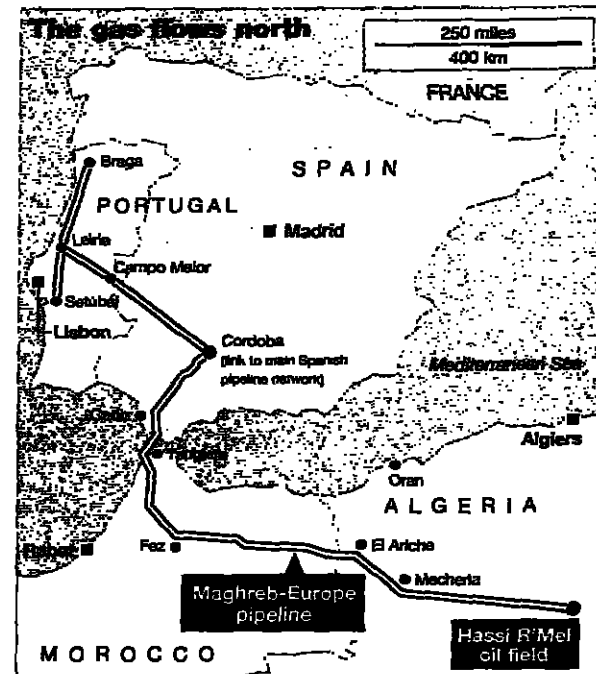
To mark the ceremonial opening of the taps, 400 international guests at a palace near Coimbra were treated to a display of laser lights, a multicultural show and dance, and the ministerial speeches of the "together we will meet the challenge" variety.

The one possible snag in the whole venture is that Portugal has made itself wholly reliant for its gas on a country which has been engaged in a brutal internal conflict for the last five years.

Mr Elias da Costa, Transgas's president, admits to being concerned about this new energy dependence. But, like the Spanish, the Portuguese are gambling on the theory that no possible government in Algeria would ever put gas exports at risk.

"Algeria has never failed in all the time it has been supplying Spain, Italy and France," he says.

However, in addition to the 2.5bn cubic metres of gas it is due to receive annually from Algeria, Transgas plans to diversify its sources with a 500m cubic metre annual



purchase of Nigerian gas, starting in 1999, supplied through a terminal at Huelva in south-west Spain. It aims to back this up with an emergency supply deal - just in case. Depending on how demand develops in both Portugal and Spain, it is also thinking of building its own Atlantic plant to receive shipments after the turn of the century.

Portugal agreed to join the Maghreb pipeline venture only in late 1994, tearing up a project with Gaz de France for shipping liquefied gas and constructing a regasification plant at Setúbal, the industrial port south of Lisbon.

Transgas took a 28 per cent stake in the Spanish-controlled venture responsible for the pipeline between

the Algerian-Moroccan border and Córdoba in southern Spain. Apart from Portugal, the project is seen as a future supply route to the markets of France and Germany.

The Portuguese section consists of about 600km of buried tubing, crossing more than 1,400 roads and three main rivers. It runs west from Campo Maior on the Portuguese Spanish border near Badajoz, to a point near the town of Leiria where it connects with a north-south line, with Setúbal at one end and the northern city of Braga at the other. Another 75km stretch is being built from Braga to Spain's north-western Galicia region.

Links from the main pipeline to local distributors and industries account for a further 275km.

Up to now, only Lisbon has enjoyed the benefit of mains gas - due to be replaced in future by natural gas. Cities such as Oporto, Coimbra, Aveiro, Leiria and Setúbal will start receiving supplies soon, and the network is due to reach into the interior to Guarda, Viseu, Castelo Branco and Portalegre by the end of next year.

In a country up to now overwhelmingly dependent on oil, gas is set to provide around 10 per cent of primary energy needs. Transgas reckons the cost savings for industries such as ceramics will bring significant gains in competitiveness.

Portugal has seen only one industrial investment larger than this one - the \$3.6bn AutoEuropa joint venture between Ford and Volkswagen, inaugurated two years ago. Not surprisingly, it will be the first client for the gas.

Algeria, EU to discuss accord

By Rousa Khalaf in London

Algeria and the European Union today open talks on a partnership agreement which aims to bring Algeria into a free trade zone encompassing the EU and southern Mediterranean countries within 12 years.

The agreement falls within the framework of the Barcelona process designed to forge closer co-operation between Europe and Mediterranean neighbours to help develop Mediterranean economies and stem the spread of Islamic fundamentalism. Agreements have already been signed with Tunisia, Morocco, Israel and the Palestinian Authority.

The EU has allocated Ecu4.6bn (\$6.3bn) to help Algerian industry prepare for competition with European goods. European access to agriculture products, a main sticking point for other Mediterranean countries, is not likely to present a problem for Algeria, a net importer of food. But the country, battered by five years of struggle with Islamic militants, will balk at the speed at which the EU wants tariffs dismantled and is likely to ask for exemptions on certain products.

Algerian industry already

WORLD TRADE NEWS DIGEST

Philippines to sign IT accord

The Philippine government has said it will sign the World Trade Organisation agreement on reducing tariffs on a series of information technology (IT) products. The Philippines will initially end tariffs on non-sensitive IT goods in 2000, followed by the removal of tariffs on all IT goods five years later. IT goods now are subject to tariffs of between 3 and 20 per cent.

Mr Cesar Bautista, trade and industry secretary, said the government had agreed to sign the IT agreement following the end of local opposition to the move. Manila has delayed endorsement of the accord until now because of concern from local groups which make their own IT goods. The move follows pressure from the US which has been urging members of the Asia Pacific Economic Co-operation forum to liberalise their IT sectors. Apec accounts for about 60 per cent of world IT trade which totals about \$500bn a year and is expected to double by the end of the century.

Justin Marozzi, Manila

Coca-Cola's \$1.7bn expansion

Coca-Cola has unveiled plans for a five-year \$1.7bn expansion programme in the Philippines through Coca-Cola Bottlers Philippines (CCBPI), a joint venture with San Miguel, the local food and beverage giant.

The Santa Rosa plant in Laguna will be one of the world's largest soft drinks manufacturing complexes with an initial annual production capacity of more than 31m cases. It will manufacture products in plastic bottles and cans. CCBPI is the Philippines' market leader with 75 per cent of the soft drinks industry.

Mr Doug Ivester, president and chief executive of Coca-Cola, said the Philippines was "one of the best performing Pacific Rim economies [and] one of our biggest and most important markets internationally." The company's investments in Laguna would give further impetus to developing an industrial corridor in the Calabarzon area, he said.

Justin Marozzi, Manila

IBM in China parts venture

IBM China, a unit of IBM of the US, yesterday said it had set up a parts manufacturing joint venture valued at \$42.2m in Shenzhen. IBM China has teamed up with China Great Wall Computer Group and Shenzhen Kaifu Technology to make magneto-resistive head gimbal assemblies - components used to manufacture hard disc drives. The venture, IBM's largest in China, will employ about 1,000 people.

Budapest has awarded a 25-year contract to upgrade and run its drinking-water distribution system to a consortium led by Lyonnaise des Eaux de France and including Germany's RWE Entsorgung.

Lyonnaise, France's second largest water-based conglomerate, said its bid had been chosen in preference to those of rival consortia including Generale des Eaux, its bigger domestic rival, and Saur, France's third largest water group.

Leyla Boulton, Environment Correspondent

EU urged to curb fur imports

By Caroline Southey in Brussels

European Union environmental groups yesterday urged the EU to impose, without delay, an import block on furs from animals caught with leg-hold traps. The groups also denounced a deal the EU is proposing with Canada and Russia on banning the use of some traps.

The call came as environment ministers confirmed their earlier rejection of a provisional deal struck between EU negotiators and Canada and Russia. The ministers have insisted that any agreement must ensure a comprehensive and immediate ban on the use of all leg-hold traps. EU foreign ministers have also called for fresh negotiations with the two countries with a view to firming up the proposed deal.

Eurogroup for Animal Welfare, an umbrella body for 15 leading animal welfare organisations in the EU, said the proposed deal with Canada and Russia was a "sham" which would not reduce the suffering of trapped animals. The group called on the environment ministers to maintain "the toughest possible line" in negotiations.

Eurogroup also attacked the Commission for postponing a decision on banning fur imports. "The Commission has decided again and again to postpone the import ban in fear of a threatened trade dispute. Nothing is being achieved to protect animals against cruel trapping methods," Mr David Wilkins, director of Eurogroup, said.

An EU official said negotiations with Canada and Russia would resume on

March 17. He said talks with the US would begin once a deal had been struck with the other two countries. EU negotiators have failed to strike even a preliminary deal with Washington which is demanding the right to continue using steel-jawed traps if an alternative trapping method cannot be found.

EU environment ministers have led the campaign for a ban on "inhumane" trapping methods in the US, Russia and Canada, the three leading fur-producing countries. However, this issue has been caught up in a wider dispute within the EU, particularly on what concessions the union should offer to secure an agreement.

The US and Canada have said they will refer any import ban on fur to the World Trade Organisation.

Algeria, EU to discuss accord

By Rousa Khalaf in London

Algeria and the European Union today open talks on a partnership agreement which aims to bring Algeria into a free trade zone encompassing the EU and southern Mediterranean countries within 12 years.

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Algerian industry already

faces huge difficulties and, with legislative and local elections planned for this year, the government is likely to tread carefully in agreeing to reduce barriers. Production in the bloated public sector declined last year, while the private sector faces a shortage of credit and administrative constraints which prevent it from renewing equipment and competing with foreign goods.

Attracting foreign investment is at the top of Algeria's agenda. But outside the oil and gas sector, the violence deters interest. Algeria's negotiations with

the EU are being watched more for their political context. A standard clause in the agreement commits Algeria to respect democratic principles and human rights. European officials say Algeria is eager to see the agreement signed and will agree to a clause which will give the EU a tool to make disbursement of aid conditional on political developments.

A European official in Brussels said an agreement did not signal EU endorsement of Algeria's political record, although there were indications of progress towards greater democracy.

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INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS															
Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1989=100.															
UNITED STATES				JAPAN				GERMANY							
Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	
1986	230.0	-100.8	-153.4	0.8536	81.4	208.9	94.2	67.2	165.11	127.7	248.5	53.5	41.8	2.1279	108.8
1987	220.2	-131.8	-154.1	1.1541	71.9	184.7	83.7	65.6	151.31	135.8	254.4	55.8	40.6	2.0710	114.9
1988	272.5	-100.2	-107.4	1.1833	67.0	218.7	79.8	67.0	151.31	153.7	272.6	61.4	42.4	2.0739	114.1
1989	330.2	-96.3	-84.3	1.1017	70.0	245.5	70.6	53.4	151.87	147.0	310.1	65.1	51.5	2.0681	113.3
1990	302.0	-76.3	-72.7	1.2745	68.7	220.0	50.0	28.5	183.94	132.5	324.6	51.8	38.3	2.0537	118.1
1991	345.9	-53.5	-6.0	1.2392	66.7	249.2	77.7	57.4	166.44	143.7	327.8	11.1	-14.8	2.0480	117.1
1992	345.9	-65.2	-47.5	1.2957	64.3	256.6	66.2	66.7	164.05	150.7	330.9	16.8	-15.0	2.0157	120.7
1993	387.3	-86.7	-85.4	1.1705	68.3	300.4	118.6	112.5	130.31	181.0	325.2	30.6	-17.6	1.9337	123.3
1994	432.2	-127.0	-114.6	1.1857	85.1	323.1	121.8	110.8	120.99	194.9	360.3	37.8	-18.6	1.9198	125.6
1995	462.3	-122.9	-114.6	1.2628	61.2	351.3	121.4	121.43	204.8	204.8	404.4	45.9	-18.1	1.8508	132.1
1996	488.7	-131.8	1.2826	64.4	320.0	66.8	52.7	136.24	177.7					1.8944	126.5
1st qtr-1996	121.2	-30.6	-27.7	1.2570	63.7	78.6	16.9	122	132.92	182.0	103.0	11.6	-2.9	1.8455	126.6
2nd qtr-1996	126.2	-32.7	-32.6	1.2382	64.6	81.7	16.1	122	132.80	180.8	107.6	11.5	-3.5	1.8821	126.2
3rd qtr-1996	122.3	-35.5	-38.0	1.2613	64.4	78.5	15.9	143	137.43	176.9	104.8	14.5	-5.9	1.8894	126.7
4th qtr-1996	129.0	-39.2	1.2687	65.0	81.2	81.2	17.8	133	141.72	171.2				1.9217	127.0
January 1996	38.1	-11.5	n.a.	1.2634	63.6	26.5	5.6	4.3	133.43	182.1	34.2	2.9	-2.7	1.8460	131.6
February	41.2	-8.3	n.a.	1.2536	63.8	27.1	4.3	3.4	132.49	182.1	34.4	4.0	0.5	1.8377	130.8
March	41.0	-8.8	n.a.	1.2541	63.8	28.1	7.0	4.5	132.84	181.9	34.4	4.0	-0.5	1.8629	130.1
April	41.6	-10.5	n.a.	1.2421	64.3	26.5	3.7	2.8	133.12	180.7	34.2	4.3	-0.6	1.8715	129.0
May	46.5	-11.7	n.a.	1.2332	64.6	28.7	5.8	4.6	130.67	182.1	33.8	4.3	-1.5	1.8826	127.7
June	41.9	-10.4	n.a.	1.2388	64.8	26.5	6.8	4.8	134.91	178.2	33.6	4.0	-1.1	1.8922	127.4
July	40.0	-12.4	n.a.	1.2563	64.6	26.7	4.5	4.7	137.21	176.8	35.4	5.5	-2.6	1.8858	129.5
August	41.2	-11.2	n.a.	1.2646	64.1	26.5	6.3	6.5	136.84	178.2	34.6	4.4	-2.3	1.8908	129.2
September	41.0	-12.6	n.a.	1.2597	64.7	26.5	5.1	3.7	138.04	175.7	34.8	4.6	-0.7	1.8957	129.3
October	43.0	-10.1	n.a.	1.2638	65.0	27.2	5.3	3.9	140.25	172.2	35.7	4.9	-0.7	1.9157	127.3
November	42.9	-10.0	n.a.	1.2708	64.4	27.8	7.8	5.8	142.84	171.3	35.6	4.8	0.2	1.9207	127.3
December 1996	43.0	-12.1	n.a.	1.2428	65.5	26.1	4.5	3.6	141.59	170.2				1.9296	128.2
FRANCE				ITALY				UNITED KINGDOM							
Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Imports	Current account balance	Ecu exchange rate	Effective exchange rate	
1986	127.1	0.0	3.0	6.7948	102.7	108.3	-1.4	1481.6	101.4	108.3	-14.2	-1.3	0.6708	81.1	
1987	126.3	-4.5	-3.7	6.8285	102.7	101.0	-2.5	1494.3	101.1	112.8	-18.4	-6.8	0.7047	83.3	
1988	141.9	-4.7	-3.4	7.0354	100.6	108.3	-8.9	-8.0	1508.8	97.7	120.8	-32.3	-24.8	0.6643	84.7
1989	162.9	-6.3	-3.6	7.0189	99.8	127.8	-11.3	-17.0	1509.2	98.6	137.0	-36.7	-33.3	0.6728	91.9
1990	170.1	-7.2	-7.2	6.8202	103.8	133.0	-6.3	-9.3	1508.0	100.1	142.3	-26.3	-26.2	0.7190	95.8
1991	182.4	-4.2	-4.2	6.8449	103.9	137.0	-10.5	-17.7	1513.3	98.7	147.7	-14.7	-14.1	0.7002	90.5
1992	192.6	4.5	2.9	6.8420	103.4	137.0	-10.5	-17.7	1513.3	98.7	147.7	-14.7	-14.1	0.7002	90.5
1993	178.6	13.3	8.0	6.8281	103.1	144.9	18.1	9.7	136.87	80.6	143.9	-17.8	-13.8	0.7358	87.1
1994	198.8	12.9	5.4	6.5659	110.1	181.4	18.8	13.1	130.68	77.0	174.1	-17.2	-13.8	0.7780	86.1
1995	191.1	15.9	12.4	6.4680	113.4	182.0	22.8	20.1	210.84	69.4	186.0	-14.2	-8.3	0.9130	75.2
1996	231.2	19.3	14.0	6.4068	113.3	228.3	21.0	19.2	210.21	75.8	208.9	-15.5	-8.3	0.9026	77.5
1st qtr-1996	58.0	4.7	6.1	6.3281	113.4	47.8	4.8	-1.2	196.77	73.2	49.6	-4.6	-1.6	0.9260	75.0
2nd qtr-1996	56.2	3.8	4.3	6.3772	113.4	51.9	9.8	19.0	192.23	76.9	51.2	-0.8	-0.6	0.9113	76.1
3rd qtr-1996	58.2	5.1	4.3	6.4242	113.2	47.6	11.3	8.6	191.64	76.7	51.4	-3.7	-0.1	0.9113	75.8
4th qtr-1996	58.8	5.7	6.4976	112.5				2.9	191.12	77.6	54.8	-3.4	0.7670	80.1	
January 1996	19.2	1.3	2.5	6.3221	114.4	13.6	0.1	-1.1	200.14	72.4	16.3	-1.6	n.a.	0.8254	74.8
February	18.9	1.8	1.7	6.3188	113.7	16.3	2.1	1.2	198.66	73.1	16.6	-1.1	n.a.	0.8158	75.0
March	19.9	1.8	2.0	6.3434	113.7	18.0	2.7	-1.3	198.81	74.0	18.7	-1.4	n.a.	0.8212	74.9
April	18.5	0.6	0.6	6.3480	113.0	18.2	2.3	2.4	194.49	74.8	16.8	-1.5	n.a.	0.8201	75.0
May	19.3	1.8	1.2	6.3707	113.3	18.1	3.0	3.8	193.68	74.6	16.0	-1.4	n.a.	0.8156	75.0
June	18.5	1.5	1.5	6.4121	113.0	17.4	3.7	4.5	192.52	75.2	17.3	-1.1	n.a.	0.8201	75.2
July	19.1	1.6	0.0	6.3965	113.7	19.7	6.3	2.7	191.81	76.6	17.1	-1.1	n.a.	0.8301	77.1
August	19.1	2.1	1.5	6.4231	113.2	11.9	3.5	5.4	192.38	76.4	16.9	-0.8	n.a.	0.8085	76.1
September	19.5	1.5	1.7	6.4332	112.6	16.4	1.4	1.3	191.14	77.5	17.3	-1.4	n.a.	0.8670	77.4
October	20.2	2.6	2.1	6.4770	112.8	19.1	4.0	0.7	191.32	77.0	17.3	-1.4	n.a.	0.7904	75.4
November	18.8	1.4	1.2	6.5001	112.6	17.1	3.0	1.5	192.26	77.5	18.0	-1.4	n.a.	0.7645	80.6
December 1996	19.9	1.7	8.5156	111.8			-0.1	199.95	78.1	18.8	-1.1	n.a.	0.7465	84.4	
Due to the introduction of the single market, EU countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and Import data are calculated on a monthly basis on board basis, except for Germany and Italian imports which use the CIF method (including carriage, insurance and freight charges) and are calculated on a monthly basis from July 1995 onwards. * "shown in italics, rest in bold".															

NEWS: INTERNATIONAL

Clinton critical of Israeli homes plan

By Paul Waldman
in Washington and
Judy Dempsey in Jerusalem

US President Bill Clinton yesterday criticised Israel's decision to build homes for Jews in Arab east Jerusalem as he welcomed Mr Yasser Arafat, Palestinian leader, to the White House.

"I would have preferred the decision not to have been made because I don't think it builds confidence," he said at the start of a meeting with Mr Arafat. "I think it builds mistrust."

Mr Arafat, who has used his visit to the US to try to build American opposition to the Israeli plan, said the Har Homa project was designed to "squeeze and isolate Jerusalem".

He said in Washington on Sunday night that the plan violated accords and was aimed at further dividing the West Bank. However, he did not repeat a threat made on Saturday that he might declare an independent Palestinian state in response to Israel's move.

Mr Arafat's visit - part of a series of visits by Middle East leaders to Washington

- was planned before the most recent crisis erupted.

Mr Benjamin Netanyahu, Israeli prime minister, met Mr Clinton last month. News of the planned settlements could jeopardise the more positive relationship between the two men, which Israeli officials hailed as the main achievement of that meeting.

Mr Clinton plans to meet Mr Hosni Mubarak, the Egyptian president, and Jordan's King Hussein later this month.

Mr Arafat left the White House after a 90 minute meeting without making further comment. He later attended a lunch with Mrs Madeleine Albright, secretary of state.

In Israel, Mr Netanyahu toured parts of east Jerusalem yesterday in an attempt to deflect criticism from the Har Homa project. He repeated his pledge to upgrade the infrastructure of Arab neighbourhoods. Many shops and schools were closed in protest.

Meanwhile, Israeli officials said they did not expect to complete by next Friday the first of three troop withdraw-

als from rural areas of the West Bank.

The long-overdue redeployments, agreed in the 1995 Oslo peace accords, were included in January's Hebron deal which led to an Israeli troop withdrawal from the West Bank town of Hebron. It was agreed the initial phase of the redeployment would be "carried out during the first week of March".

The three redeployments will give the Palestinian Authority control over areas of the West Bank currently under Israeli military administration but under Palestinian civilian rule.

The extent of Israel's withdrawal is unclear, but the last redeployment should take place not later than mid-1998.

Israeli officials yesterday denied that delay in implementing the first phase of the redeployment was linked to the construction of the Har Homa project. They said the more rightwing and nationalist parties in the conservative Likud coalition led by Mr Netanyahu were opposed to the first redeployment.



Yasser Arafat greets members of Washington's Arab community at a Palestinian-American Congress dinner

Threat to insurer over Holocaust compensation

Israel MPs to debate action on Generali

By Avi Machlis in Jerusalem
and Norma Cohen in London

Israeli parliamentarians will tomorrow discuss measures that could be taken to compel Assicurazioni Generali, the Italian insurance company, to agree to compensate families of insurance policyholders murdered by the Nazis during the second world war.

Generali is poised to acquire a controlling stake in Migdal, one of Israel's leading insurers, in a deal valued at about \$300m. "We will not accept the foot-dragging this time," said Mr Michael Kleiner, an MP and chairman of the Knesset (parliament) insurance subcommittee, who has spearheaded a campaign to force Generali to pay out on dormant insurance policies.

Mr Abraham Hirschson, an MP and chairman of the sub-committee for the restitution of Jewish property, along with members of Mr Kleiner's insurance subcommittee will be questioning Mr Doron Shorer, a finance ministry official responsible

for the insurance industry.

The MPs want to know whether it is possible to delay completion of the sale until it is established that Generali is not purchasing Migdal with assets belonging to Holocaust victims or their heirs. Mr Kleiner said the MPs would also demand that Generali agree to open files in a warehouse in Trieste, northern Italy, to independent Jewish organisations.

Yad Vashem, the Israeli-based Holocaust research institute, estimates 80 per cent of the "tens of thousands" of policies lodged in that warehouse belonged to Jews who survived or perished in the Holocaust.

Generali was formed in 1881 by a group of Jewish insurers and built up a significant market share in eastern Europe, particularly among Jews.

Mr Hirschson compared the Generali case to that of Swiss banks which also "originally said they had no names or information" on dormant accounts of Holocaust victims, but recently conceded and established a

compensation fund. He said plans were under way for a class-action suit in Europe or the US against Generali.

Generali has rejected responsibility for these claims, saying that all of their eastern European assets were expropriated by the post-world communist regimes.

Ms Elisheva Anspacher, a lawyer for 15 families seeking proceeds of Holocaust victims' Generali insurance policies, is pressing legislators to delay the purchase of Migdal until some compensation is agreed.

Generali has insisted her clients produce the original policies before it will pay claims, according to Ms Anspacher. "Most of my clients didn't have their documents when they came back from the concentration camps."

On Sunday the weekly Swiss newspaper Sonntags Zeitung said Swiss life insurers collaborated with the Nazis and agreed in 1944 not to pay out on German Jews' insurance policies from their Swiss offices.

UN agencies clash over staff

By Bernard Simon
in Toronto

A row between two UN environmental agencies has been further stoked by accusations that under-performing staff will be dumped in one of the groups.

The Montreal-based secretariat of the Convention on Biological Diversity (CBD) has accused the United Nations Environment Programme of forcing it to take Unep officials whose jobs are threatened by budget cuts.

UN member states have recently intensified pressure on Unep to implement long-delayed administrative and other reforms which would result in significant staff shrinkage.

The UK, US and Spain last month withheld their 1997 contributions to the Nairobi-based agency after India, Bangladesh and Colombia led a move among developing countries to block the proposed reforms.

The long-running dispute with the CBD culminated in Unep dispatching its ombudsman to Canada last week. Ms Elizabeth Dowdeswell, Unep executive direc-

tor, earlier voiced concern to Mr Calipstone Juma, CBD executive secretary, over "complaints... about the performance at a high level of the [CBD] secretariat".

Ms Dowdeswell, a Canadian, is due to step down at the end of the year. She has been criticised by some member states for failing to implement reform with sufficient vigour.

According to Ms Dowdeswell, the allegations against Mr Juma and his staff "are at the moment unsubstantiated". But she said they merited "an independent and transparent enquiry".

The CBD, set up after the 1992 Rio de Janeiro summit on the environment, is nominally independent of Unep. However, Unep administers its budget and controls recruitment of personnel.

The Canadian Institute for Business and the Environment, which has close ties to the CBD, said the pressure to hire departing Unep officials had "stymied" the secretariat's work. It alleged that many of the departing employees were "the same people that have led Unep to its current state of affairs".

Morocco urged to amend its privatisation law

By Foule Khafat

Morocco should amend its privatisation law and scrap the system of listing companies awaiting sell-off, according to Mr Abderrahmane Saadi, minister of privatisation.

Under the 1989 privatisation law, even the selling of minority stakes to affiliates of state entities requires parliamentary approval. But Mr Saadi said in an interview that these stakes should be sold to the public by the enterprises concerned, without going through parliament.

Morocco's sale of its public sector, which accounts for about 18 per cent of gross domestic product, got off to a healthy start in 1988. But the best companies were sold first and the pace has slowed as the privatisation ministry struggles to shed less popular concerns. Only 49 of the original 112 companies on the privatisation list have been sold, raising just \$1.1bn.

Mr Saadi said the programme was on track but he now concluded that placing a company on a privatisation list was detrimental. Such a list demoralised management, scared workers and stopped investment, he said. Morocco should instead create a list of companies which were not to be privatised and allow the ministry to pick companies for sale when it was ready to sell them.

However, Mr Saadi has had difficulty getting his

enment and opposition parties in Morocco, yet every sale still generates heated debate. Parliament is opposed to Mr Saadi's proposals, which would dilute its powers over the sell-off process. It is, however, ready to add new names to the privatisation list.

Meanwhile, the minister's relationship with opposition parties has grown acrimonious, after an opposition deputy accused him of selling a hotel to a foreign investor at a price lower than that offered by the deputy.

Mr Saadi has also asked for procedural changes, especially by setting sale prices. Under current rules, an independent evaluation committee sets a minimum price for a company, but the minister wants an indicative price, with the final figure decided on by the market.

However, his proposal has not moved beyond the finance ministry.

Mr Saadi said the privatisation programme would continue to progress. Several sales were in their final stages, including the shedding of a 70 per cent stake in the Samir oil refinery.

Crucially, he added, parliament should this month vote on a draft law to liberalise the telecommunications sector and open up its capital to the private sector, although the state might retain a minority stake.

The liberalisation would start with a private licence for mobile phone operators. But within 18 months it was possible that a first sale of



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NEWS: UK

Rate of job cuts to accelerate

Strength of pound worries British Steel

By Stefan Wagstyl, Industrial Editor

British Steel intends to accelerate job cuts in response to the rise in the pound and fears that staying out of European monetary union could give a further boost to sterling.

Sir Brian Moffat, the chairman, last month ordered senior managers to give top priority to cost-cutting and signs that the pound looks likely to remain strong following its 23 per cent rise against the Danish since the start of last year.

Sterling closed in London yesterday at DM2.743 compared with a value of DM2.222 at the beginning of 1996.

British Steel fears that the pound's strength will make it more difficult for the company to compete against imports and will harm UK industry's international competitiveness.

The company loses an estimated £100m (£183m) profit for every 10 pence rise in the pound.

The group, which has been shedding between 500 and 1,000 posts a year in the 1990s, is proposing to cut well over 1,000 in the financial year starting in April.

It will continue cutting more than 1,000 jobs annually unless there is a dramatic reversal in the pound.

"There is a new sense of urgency; though it is early days to quantify the cuts, we will see a real lift-off," said Mr John Bowden, director for investor and media relations, yesterday.

Six Brian first warned last year that the strong pound might bring job cuts. Specific decisions are likely to be announced by July.

British Steel, which last closed a big steelworks in 1992 when it shut Ravenscraig in Scotland, has no plans to close further sites.

A French-owned group, Metabral, has invested £16m (\$26m) in an electric arc furnace on an undeveloped site at Billston in the English Midlands where steel was made for more than 200 years, Stefan Wagstyl writes. Metabral, a subsidiary of the French conglomerate CGIP, employs 150 people in the UK and 50 in South Africa producing ultra-hard steel for use in abrasives for cutting and polishing metal. Mr Chris Scarrott, managing director, said the new plant would safeguard existing jobs. Turnover was forecast to rise from £27m last year to £35m (\$57m) in 1997 with the help of the new plant.

But the company's aim of improving efficiency in UK steelmaking could lead to closures at smaller sites in the longer term.

Among plants which might be vulnerable is Shelton in the English Midlands. British Steel warned in 1995 that it might close, during a dispute with the European Commission over state aid for Irish Steel, the Republic of Ireland producer. Shelton is now cutting staff by 25 per cent to about 300.

However, in the immediate future British Steel is more likely to concentrate on piecemeal investments, reducing jobs by installing labour-saving equipment.

Mr Bowden said that even though British Steel is the lowest-cost steelmaker in western Europe it still had further to go in increasing efficiency. For example, at Trico, the US venture in single European currency, future investment would be at risk at the New Holland factory in south-east England.

The company, 69 per cent owned by the Italian group Fiat, is the world's second

Discovery of losses hits NatWest shares

US bank says former London trader is 'on leave, pending further investigation'

By John Gapper and George Graham

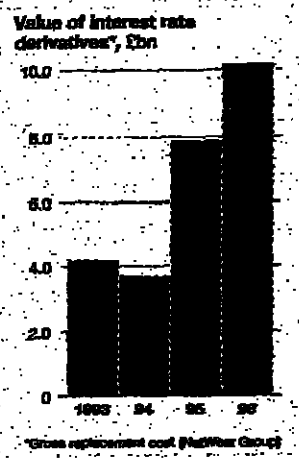
Shares in National Westminster Bank were marked down sharply by investors yesterday following Friday evening's disclosure that it was settling aside \$50m (\$81m) to cover losses in a trading book run by Mr Kyriacos Papoulis, a junior trader.

Although most of the \$40m loss in NatWest's market value was caused by its shares going ex-dividend, the fall of 27 pence in its shares also reflected worry that the bank had failed to notice the mispricing of options last year.

Bear Stearns, the US investment bank to which Mr Papoulis, aged 30, moved at the end of last year, said that he was "on leave, pending further investigation". NatWest has asked to interview Mr Papoulis as part of its inquiries.

NatWest's inquiries are thought to be focusing on

Risk and reward at NatWest Markets



Former head of NatWest Debt Capital Markets

whether Mr Papoulis mis-priced some trades in the second half of last year to conceal losses. Mr Neil Dodgson, to whom he reported, has been suspended for failing to supervise him.

Mr Dodgson's direct manager is Mr Jean Francois Nguyen, the head of fixed

income derivatives at NatWest Markets, the bank's investment banking arm. Until the start of the year, Mr Nguyen reported to Mr Phil Wise, head of debt capital markets. Mr Wise has now become NatWest Markets' chief administrative officer, in charge of risk.

Other investment banks involved in European interest rate options said NatWest Markets had made several big trades during the last quarter, which could have been intended to hide losses.

However, some investment banks said NatWest also

appeared to have been using an option pricing model that underrated the risk of some types of transaction. "It does not say a great deal for their controls," said one trader.

NatWest said that it expected to reach initial findings in its inquiry by next week. It has hired an accountancy firm to help with the investigation, but said it did not expect to take any further action until this is complete.

The incident has further highlighted the difficulties faced by investment banks in controlling traders. Details emerged as the Bank of England, the UK central bank, reiterated a warning over bonus schemes that reward short-term performance by traders.

Mr Howard Davies, deputy governor of the central bank, said on BBC radio that it did "not make sense" for banks to have both bonus systems that encouraged risk-taking by traders and weak control systems to check on abuses.

Tax threat to firms in liability manoeuvre

By Jim Kelly, Accountancy Correspondent

The Inland Revenue yesterday threatened accountancy firms with potentially crippling tax bills if they register in Jersey to try to limit the legal risks faced by partners.

The move - which came in a private letter to the accountancy firm Price Waterhouse - may prompt a judicial review and a long battle in the courts. A senior partner at one firm said: "We are not giving up."

The firms, which include law firms, want to register in Jersey, the largest of the Channel Islands between England and France. A law there protects the personal assets of partners from actions for damages although the assets of the firm and negligent partners can still be at risk.

At the moment partners in the UK pay income tax. If firms which registered in Jersey were taxed as UK companies it is estimated that their tax bills could rise by 6 per cent to 10 per cent.

There would also be a one-off tax bill associated with the change from partnership to company taxation. "There could be an enormous tax penalty," said one partner involved. While the Revenue's letter is in response to a plan put forward by Price Waterhouse to register in Jersey, it will be widely seen as a signal to the whole professional sector.

"The letter implies that if we were to form a Jersey limited liability partnership today and transferred our business into it, that would be a disposal for capital gains purposes," said one partner at one of the six biggest accountancy firms. The government has already responded to the threat that two "Big Six" firms - Price Waterhouse and Ernst & Young - might go offshore by promising to bring forward similar protective legislation.

Minister persists in integration warnings

By David Suchan in Paris

Mr Malcolm Rifkind, the UK foreign secretary, yesterday took to Paris his crusade against "excessive integration" within the European Union. He expressed his surprise that France had recently taken positions that would undermine national governments' role in foreign policy, justice and home affairs.

Mr Rifkind said his concerns about "the EU's democratic legitimacy and excessive integration" had struck a "resonant" chord in

Sweden and had a "less encouraging response" in Germany. He was surprised that on many issues "Britain and France are today on different sides of the debate".

Speaking to the French Institute of International Relations, Mr Rifkind claimed that Paris and London shared "the same impulse - to reconcile the future of the EU with the preservation of the nation state". France's recent switch to proposing that asylum and immigration policies should be decided by majority verdict in Brussels, rather than by national governments, has dis-

turbed the UK government. Mr Rifkind quoted with approval the French interior minister as stressing that "control of immigration is a nation-state prerogative".

Mr Tony Blair, leader of the opposition Labour party, will today conclude a series of meetings with chairmen or chief executives of almost all companies listed on the FTSE 100 index, our Chief Political Correspondent writes. He will point to the governing Conservatives' disarray on Europe as a prime motive behind Labour's improved relations with business. The Labour leader

will tell his audience that the City of London is growing increasingly alarmed at the prospect of a future Conservative government seeking withdrawal from the EU.

Labour will today introduce to the House of Commons Mr Ben Chapman, victor in last week's parliamentary by-election in north-west England. His arrival will leave the government in a minority, although Labour has dropped attempts to force the national election before May 1, when it is widely expected.

Philip Stephens, page 14

Tractor maker fears Euro currency opt-out

By Peter Marsh in London

If the UK failed to join a single European currency, future investment would be at risk at the New Holland factory in south-east England.

The company, 69 per cent owned by the Italian group Fiat, is the world's second

biggest manufacturer of tractors. Mr Umberto Quadrino, New Holland chief executive, said yesterday he was "seriously worried" by the prospect of sterling not being part of European economic and monetary union.

A decision by Britain to opt out of the single currency might make New Hol-

land reconsider future investment in its plant at Basildon, 40km east of London, which makes about 40 per cent of the company's tractor output. The factory, with a workforce of 1,600, is one of the world's biggest tractor plants.

The effect of the pound's strength over the past year

had caused revenues from New Holland's Basildon operations to be \$20m less than they would have been, Mr Quadrino said.

New Holland expects 1997 sales to continue at last year's levels, Mr Quadrino said yesterday in announcing net income for 1996 up 25 per cent. The company

expects its 1997 production of tractors, including those made in joint ventures, to be 4 per cent to 6 per cent higher than the 115,000 it made in 1996. Net income for 1996 came to \$323.9m, up on \$268.5m in 1995. Sales rose 10 per cent to \$5.57bn.

India plant, page 6

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Undertaking in court persuades leading City watchdog to end legal action

Ex-trader vows to return funds

By City Harris in London

Mr David Rycott, a former London futures trader, has agreed to return all money invested by UK customers of his new Spain-based currency scheme. He has also promised not to engage in any investment business in the UK.

After Mr Rycott and his Spanish company, Anglo Scandinavian, gave the undertakings in the High Court in London yesterday, the Securities and Investments Board agreed to discontinue its legal proceedings against them.

The case marks the latest effort by financial regulators in the UK and other European countries to crack down on high-risk currency trading schemes operating across borders.

Some 80 UK customers of Anglo Scandinavian stand to receive back a

total of £280,125 (\$619,600) according to the court order. The figure includes reimbursement of net losses of £45,635. The largest single investor had put in £23,000.

The permanent undertaking given by Mr Rycott not to engage in any new investment business in the UK is without precedent in its scope.

It could raise questions about the operation of the European Union's Investment Services Directive. Under the ISD, a company authorised by one country can be issued a "passport" to operate throughout the EU, although national regulators may challenge this authority if local laws are broken. Anglo Scandinavian is not regulated by Spanish authorities, but the Copenhagen-based Scandinavian Forex and Futures Group, another currency trading company owned by Mr

Rycott, has applied for authorisation by the Danish financial regulator.

SIB successfully applied in 1988 to have DPR Futures, Mr Rycott's previous options and futures trading company, compulsorily wound up on public interest grounds.

A lawyer for SIB told the High Court then that DPR was "a menace to the investing public" and had engaged in "churning" - the practice of frequent trading in order to maximise commissions.

In the latest case, SIB had sought to prevent Mr Rycott and Anglo Scandinavian from conducting unauthorised investment business in the UK or making misleading statements under the Financial Services Act.

Although they gave these undertakings, neither Mr Rycott nor his company admitted any of SIB's alle-

gations, and the regulator did not try to recover its costs from them.

Mr Rycott said yesterday: "The whole thing could have been avoided if they had written to me as soon as they thought there was something wrong."

SIB is continuing its proceedings against three other defendants. Mr Anthony Lemon signed letters sent to prospective British investors and engaged in telephone conversations with several of them. Anglo Scandinavian's mail shots offered entry to a "free draw" to win £5,000.

Mr Christopher Tomaszewski, an accountant, and Alexander, his firm based in Redhill in southern England, undertook at a hearing last month to withdraw their endorsement of Anglo Scandinavian's sales material under the Financial Services Act.

Lawyer jailed in gold mine conspiracy

By John Mason, Law Courts Correspondent

A London lawyer was jailed for two years yesterday after being convicted of conspiring to pervert the course of justice in return for shares worth £14.2m (US\$10.2m) in an African gold mining venture. Mr Martin Boston, the senior partner with law firm Boston and Co, offered to destroy evidence and lie in court to ensure the failure of a client's attempt to sue the mining company's founder.

His brother, Mr Warren Boston, a stockbroker, was jailed for 12 months after also being convicted by a jury of conspiring to pervert the course of justice.

Langold was set up in the early 1990s by Dr Mark Nathanson, a Canadian businessman, to mine gold in Mali. It prospered and attracted investment from Anglo-American, the South African mining giant.

Mr Martin Boston had been involved in a previous mining venture in Mali, acting as lawyer to the syndicate providing the backing and to one of its members, Mr George Hervey-Bathurst.

After the first venture failed, Mr Hervey-Bathurst was given shares in Langold, but after the company prospered, he began legal action against Dr Nathanson, claiming he was owed more.

Mr Martin Boston also believed he was entitled to a share in Langold and, in conversations bugged by Dr Nathanson, claimed he had documents which would enable Mr Hervey-Bathurst to win the action.

In return for shares Mr Boston said he was prepared to destroy the documents and tell a court they had been lost. His brother was also present at the meetings.

The brothers claimed their actions were a bluff and they never possessed the documents they offered to destroy.

UK NEWS DIGEST

New CJD case puts total at 16

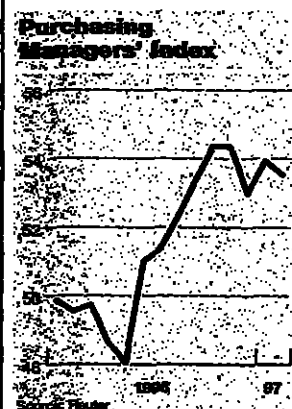
Another case of the strain of Creutzfeldt-Jakob disease linked to bovine spongiform encephalopathy or "mad cow disease" was confirmed yesterday by the government's health department. The victim is still alive and brings the total of definite and probable cases of "new variant CJD" in the UK to 16, of whom 13 have died.

The first 10 cases of emerged in March last year. The government acknowledged then that they were probably caused by eating meat infected with BSE in the 1980s. Since then, scientific evidence for the causal link between BSE and this type of CJD has grown stronger but it is not yet proven. The new variant has affected mainly young adults - for reasons that scientists do not understand - whereas conventional "sporadic" CJD tends to strike older people. All forms of CJD are fatal; patients with the new variant die more slowly.

Cite Cookson

THE ECONOMY

Manufacturing recovery steady



UK manufacturing industry remained on course for a steady recovery in February, restrained by a strong pound and a squeeze on prices, according to data released yesterday. The composite purchasing managers' index, compiled by the Chartered Institute of Purchasing and Supply, fell from 53.9 in January to 53.5 in February, a level considered consistent with an expanding manufacturing sector. The purchasing managers' survey showed that output in February hit the highest level since

November 1994, with an index of 51.7 after 55.5 in January. The CIPS said that "orders from UK customers were reported to have remained buoyant, but export orders grew only modestly".

Wolfgang Münchau

TRADE UNIONS

German body in reciprocal deal

The UK's GMB trade union yesterday signed an agreement with IG Chemie, one of Germany's biggest unions, which offers members reciprocal membership rights in both countries.

The unions have a combined membership of 1.8m, but estimate that only about 120 members are working in each other's countries. Both unions claimed the pact was significant, even though it would not entitle members to local pay rates. The unions will initially concentrate on harmonising hours and working conditions. Mr John Edmonds, general secretary of the GMB, said: "This is a natural extension of the Europeanisation of the British jobs market." Mr Hubertus Schmidt, president of the German union, said the co-operation was the first of its kind in Europe. He added: "Our goal will be the creation of a joint membership at European level to achieve minimum standards on bargaining agreements for all workers."

Andrew Bolger

London Underground: what is it really worth?

What is the London Underground worth to a private sector buyer? The sale, if it goes ahead, will inevitably lead to accusations that valuable assets are being sold off too cheaply.

The sell-off of British Rail, the former national state network, provides some very recent examples of businesses which were sold for well below their nominal asset value but then soared in price. Railtrack - created out of BR to control infrastructure such as track - had nominal assets of £6.5bn (£10.5bn). It was floated at a valuation of just under £2bn; now it is valued at about £3.3bn.

For internal purposes only London Underground values its physical assets at around £20bn. But because tunnels can theoretically last for 400 years - beyond the financial planning horizon - their notional value of £5.3bn is excluded from the calculation, as is £1.6bn of other very long-term assets.

This leaves the £13bn figure which came into circulation when the government's privatisation plans began to

The Tube has assets of \$21bn, but it will be judged on its profit potential

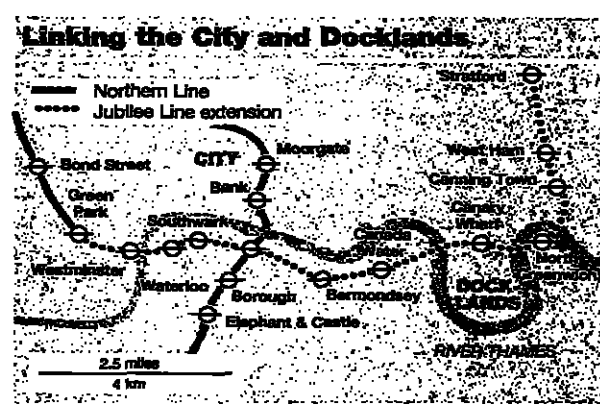
take shape. But this sum, representing the cost of the assets, falls to £7.2bn in the Underground's accounts after adjustments to take account of deterioration. But the network - known by Londoners as the Tube - will not be valued by prospective buyers on the basis of a clutch of assets, most of which have no other use than in the running of an underground railway. "The Underground will be judged by its profit potential; its ability to generate cash," comments one analyst.

By this measure, the Underground is a less attractive proposition, although it has achieved steady increases in its gross operating margin over the past five years. In 1995-96 the operating margin rose to 18.2m from £10.4m the year before.

But, after depreciation and spending on the renewal of fixed assets, the railway made an operating loss of £212m last year, down from a loss of £308m the year before. The Underground remains dependent on considerable government grants, amounting to nearly £900m this year but falling to only £150m in 1999-2000. But successful bidders will benefit from the £1.2bn estimated minimum proceeds of the sale which the government says it will plough back into the company to clear an investment backlog. Current big projects include the extension of the Jubilee Line, which will make it easier to get from the City to the Docklands. The backlog, officially put at £1.2bn, is privately estimated by Underground managers at nearer £2bn.

The valuation of the Underground will also depend on two other important considerations: the method of privatisation and the extent of competition to run the business.

A outright sale of the entire network by means of



a public offering is one of the three options being considered, though it would not generate the benefits of competition and diversity of ownership achieved by the BR sale.

A sell-off or franchising line-by-line or by groups of lines - with the new owner controlling both rolling stock and infrastructure - is a second option. But this might prove unattractive to the bus companies and groups such as Sea Containers, Virgin and GCEA, which bought BR's operations without the infrastructure.

The third option, to create a "TubeTrack", owning all the infrastructure and selling or franchising train services on individual lines, might raise the maximum cash for the Treasury because it is a formula tested in the BR sale. But

any franchise sale, if the BR model is followed, would require continuing subsidies.

The final factor in determining the value to be put on the Underground is the extent of competition between bidders. After a slow start, when BR franchises were sold on what now appear quite generous terms, the auction led to some very attractive deals for the franchising director. All franchises involve declining levels of subsidy over time and in many cases a later switch to premium payments by train operators. Privatisation of the bus industry and British Rail has created integrated transport groups with an appetite for expansion. They can be expected to bid up the price for a system.

Charles Batchelor

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ARTS

Refined images

William Packer on two very different painters

By a nice chance, exhibitions of recent work by two painters, Michael Craig-Martin and Derrick Greaves, now overlap, if only by a week or so. For both are painters who have refined their work to the essentials of line set upon tone or colour, unmoderated by texture or apparent gesture. Everything is under control, the image reduced to the effective simplicity of the idiom and elegantly disposed within the canvas. Whatever the literal nature of the representation, these are in some degree careful exercises in abstraction.

The comparison may be tempting and instructive, but it is also deceptive, for these are artists of quite different instincts, practice and principle. Craig-Martin, the more obviously figurative, is the more calculating and remote; Greaves, the more abstracted, the more intuitive and various.

At 55, Michael Craig-Martin has long been something of a power in the land, a panjandrum of the British avant-garde whose word as teacher and institutional consultant these past 20 years has carried enormous, effective weight. He is who has been the principal re-interpreter for his generation of the Duchampian heresy, that in Art it is the idea that counts above all else. And over his many years of involve-

ment with the Goldsmiths' College, he has passed the torch on to the young. *Si monumentum requiris*, you need look no further than the recent history of the Turner Prize.

The actual work of an artist of such influence and principle thus takes on an added interest. And here it is, these large canvases painted all over in a single colour of a saturated intensity, in which miscellaneous objects float about in a cosmic space - a chair, a table, a torch, a fire-extinguisher, a pair of handcuffs. These too are painted in colours straight out of the "Smartie" tube, in combinations quite as arbitrary and no less seductive - lime-green on puce, mauve on scarlet.

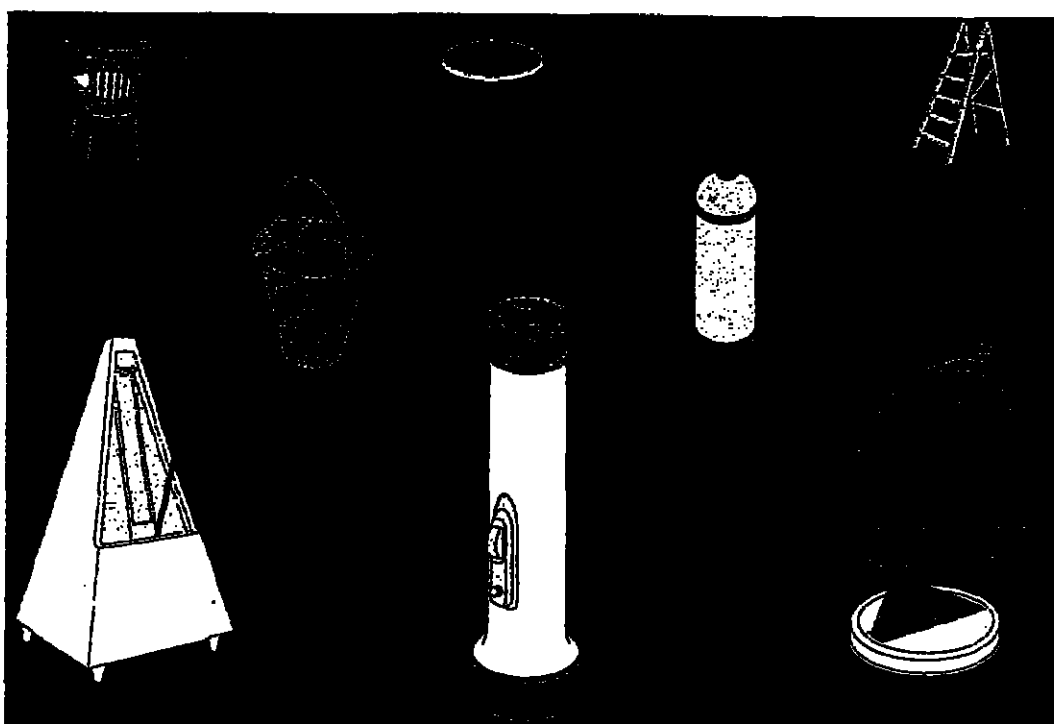
I must mean something. The scale alone is impressive, and colour so intense is surely significant. And there is the quality of the drawing, too, to worry about, each object described in simple outline of uniform thickness and emphasis, reminiscent of early Cuffield but without the wit. These objects are drawn in conventional if not always reliable perspective, their relative scale inconsistent with any coherent, indeed conceivable pictorial space. The same objects reappear, sometimes reversed, the same chair, bucket, pair of steps, plucked, we are told, from the

stock of such images held in the Craig-Martin computer. Such command of technology says a lot, so up-to-date, so time-saving, so convenient. No need to muck about with pencil and paper. No need to draw.

What, then, about the story, the content, the idea? A large green bottle, a scatter of split pills and an empty chair? A fan, an open safety-pin and an empty chair? An empty drawer, a pair of shoes and, yes, an empty chair? The truth is that any such portentous juxtaposition is the oldest surrealist trick in the game, and means nothing. These paintings, says Adrian Searle innocently in the catalogue, "are not to be trusted." Indeed, for they flatter only to deceive.

Derrick Greaves is 70, and he too has been an influential teacher, and had his moment in the sun. But it was in 1966 that he was in the British Pavilion at the Venice Biennale, and 23 years ago he had his Whitechapel Retrospective, his last major show in London. But he has never stopped working, and that work, founded directly upon natural observation through the medium of drawing, has reached over the years a pitch of refined simplicity that few artists can match.

The line he now employs may be uniform in its thickness, but never mechanically so. It is



Calculated and remote: 'Knowing', 1996, by Michael Craig-Martin

always judged to a nicety, particular to the work, and full of life. The themes may be consistent - the flowers, the human figure from which may be abstracted more particular images - but there is no question of the mere reshuffling of an existing stock. There is no going through the motions of invention, but only the actual invention of each new piece.

His work lately has moved closer to a pure abstraction in the constructivist tradition, using interrupted planes to establish a

quasi-architectural space, but there remains a residual figuration, in the ghost of a flower or still life, formal and schematic, or an abstracted, symbolic reference not so much to the female figure, nor to the female parts, but to the female principle - a curiously disinterested sensuality.

The upper room of the gallery is given to the distinguished ceramist, Gordon Baldwin, whose remarkable work deserves rather more than the mere mention I can give it now. All I will say is that it is possessed of a sculptural pres-

ence and integrity that defies any narrow definition as mere craft. There is no more impressive a show of modern sculpture anywhere now in London.

Michael Craig-Martin - *Innocence and Experience*: Waddington Galleries, 11 Cork Street W1, until March 8; with prints and Book at Alan Cristea Gallery, 31 Cork Street, until March 15. Derrick Greaves at 70: also Gordon Baldwin - ceramics: Hart Gallery, 113 Upper Street, Islington N1, until March 27.

Concert
Sixties' protest music

Ten years ago there were people in Birmingham looking ahead to the year 2000, long before the lottery or the Millennium Commission ever came into existence. They came up with *Towards the Millennium*: a decade by decade festival of the arts in the 20th century. So far it has proved an informative angle to take, which nobody else has sought to emulate. This year it reaches the 1960s and Simon Rattle was back at the Royal Festival Hall on Friday, together with his City of Birmingham Symphony Orchestra, to open the series of concerts devoted to that decade. In music, as elsewhere, the 1960s were a time of accelerating change.

The main work - a protest banner from the sixties, if ever there was one - was Henze's *The Raft of the Medusa*. Composed in 1968, this hour-long "people's oratorio" did not just seek to engage controversy; it sparked a demonstration of its own. At its first performance in Hamburg, a group of students raised a red flag on the platform, the police intervened and the concert was abandoned.

This was the decade in which music became a political art. Perhaps Woodstock and the power of popular music had something to do with it. Or maybe composers felt a need to take a social stance because of their dependence on the state (it is ironic that rebellion came when they were in receipt of more state funding than at any time before or since). Either way, Henze had a message and it was Socialist with a capital "S".

How well does *The Raft of the Medusa* stand up now? Its humanitarian theme is for all time, not just of contemporary interest, so a performance should still have the power to move. Despite the large instrumental forces, the triple choir (BBC Singers and City of Birmingham Chorus and Youth Chorus) and a seemingly broad canvas, it is a surprisingly concentrated work. Henze tells the tragic story of the common man shipwrecked and left to die with narrative urgency.

The listener comes away gripped by the story, much more so than by the music, which is thin on the ground, atmospheric but not much more. Perhaps Henze, who was present in the audience, would be satisfied with that, if it meant his message had got across. Certainly, there was no reason to find fault with Rattle, the baritone David Wilson-Johnson or speaker Franz Mazura. I would have liked sharper playing from the CBSO in Stravinsky's *Requiem Canticles*, which came before, but the taxing Henze was an admirable corporate effort.

Richard Fairman

Further CBSO *Towards the Millennium* concerts on March 9 and 12.

Theatre

Dark look at mankind

When Mark Ravenhill's *Shopping and Fucking* opened at the Royal Court last year I was uncertain about its staying power, but have to confess that the atmosphere of the play has lingered with me ever since. So too have the characters, with their shockingly empty values and brittle vulnerability who were living according to the rules of a generation accustomed to junk food, junk clothes and junk values, but who were confused by their own gentler impulses.

Ravenhill's latest play is a darker, more ambitious, and more cerebral venture into that dizzying vacuum world. This time he has teamed up with ATC director Nick Philippou to come up with a *Faust* for the end of the millennium: a look into the darkest possibilities for mankind severed from any life towards moral or spiritual progress. The play is not a modern version of *Faust*, but a rough recasting of the shape of the story into a 20th-century milieu. So we have a philosopher figure - based on a combination of Foucault and Beckett - who decides to think less and live a little more. He finds himself in the company of a young man who shares his enthusiasm for stomach-turning moral riddles and who seems eager to consume his theories.

The two embark on a journey together, but this being the 20th century, they only have to travel down the west coast of America to enjoy all the depravity they desire. They get stoned and have rough, empty sex together in Death Valley, they surf the Internet and get involved with a suicidal geek who advertises himself on the self-mutilation website. The play offers a nightmare distillation of a post-modern world where "reality" can be turned virtual by the computer terminal, where man can be manipulated in a bubble of images that seem more real than the world outside his door, where society seems dehumanised to the point of insanity.



A nightmare distillation of a post-modern world: Alain Pelletier in Mark Ravenhill's 'Faust'

It is an exceptionally dark version of the *Faust* story, because the terms of the journey are set by the philosopher's agenda. Where other *Fausts* might explore the danger of progressive thought and the audacious impulse to challenge God, this one is altogether bleaker. Beginning with a God-less interpretation of the world, it has no need for any pact with the devil - it is often hard to tell which character represents the *Faust* figure and which Mephistopheles. The characters' spiritual isolation is their hell, but worse still, Ravenhill not only depicts a world where there

is no God, but one where, "man is dead; progress is dead".

As a piece of theatre it starts slowly, but gradually ensnares you. Stodgy and unwieldy in places, it has a ghastly fascination and Philippou's production is perfectly cast: Alain Pelletier's desecrated, detached philosopher complemented by Pete Baile's jumpy, defensive student. And both play and production cannot resist the funny side of the world they portray. On a TV set at the back of the stage a chorus of American teenagers keep reminding us of the confusion of the coming

generation. At one point a young citizen of Los Angeles, scolded by his mother for stealing a VCR during a riot, replies: "Mom, what is the point of food in the house when you have nothing to watch while you are eating it". As Ravenhill suggests, this is a world where even Mephistopheles would find the competition tough.

Sarah Hemming

Continues at the Lyric Studio, London W6 to March 15 (0181 741 2311), then on tour.

Theatre in Dublin

Family troubles

The problems of Northern Ireland are not just concerned with politics and religion. The province is one of the more traditional, conservative communities in western Europe in which family and tribe are at the centre of life. Violence is often more about settling old family feuds than republican dreams of a united Ireland or loyalist insistence on preserving the status quo.

In *A Little World of Our Own* centres on three brothers living in the staunchly loyalist area of North Belfast. Ray is the hard man who delights in punishment beatings and is determined to hold the line against the dreaded "Taigs" or Catholics. "Nambly pambly" ways don't get results" says Ray.

Gordon is struggling to reconcile the bigotry and violence around him with his fiancée's insistence that he puts his trust in God. Richard, the other brother, is mentally disabled, deeply loyal to Ray on whom he looks for protection and guidance. The mother is a powerful but unseen presence, upstairs.

The hapless Richard is in love with a girl who has been seen going out with a Catholic. Ray decides to take matters into his own hands: Family honour is at stake. The results are disastrous.

Gary Mitchell is one of a growing band of Northern Ireland playwrights responsible for injecting new spirit into Irish theatre. Like Damian Gorman (*Loved Ones*) and the late Stewart Parker (*Pentecost*), Mitchell does not spare his audience any of the horrors of life in these claustrophobic communities in Northern Ireland.

It is a sad, brutal world in which everyone watches each other, every action is questioned, every word carefully weighed. The sparse living room set emphasises this insulated society.

Ray is a freelance operator who spurns the local loyalist paramilitaries. Walter is the mysterious, black jacketed "fixer" who negotiates between the family and the unseen Monroe, the military godfather. "Things are getting out of hand" Walter keeps repeating like a Beckett refrain. Justice has little meaning: what matters is showing the community round you that family honour will be preserved. "In situations like this it's not a case of what should be done - it's what people feel should be done" says Walter.

The tension is maintained throughout the short play. Stuart Graham, as Ray, is a convincing hard man, showing no remorse for his actions. The mysterious Walter is quietly underplayed by Laila Roddy. Marc O'Shea gives a masterful performance as Richard - a boy who can do cunning card tricks yet is innocently unaware of the impact of the terrifying events around him.

This is not relaxing theatre. At times the dialogue seems rather repetitive. The violence is trowelled on with no let up. Yet this is a glimpse into a world outsiders rarely see. At a time when politicians are trumpeting the importance of the family and its values this is a reminder that when the home turns in on itself, things can go terribly wrong.

Kieran Cooke

At The Peacock, Dublin until March 15.

INTERNATIONAL
ARTS
GUIDE

AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-5732121
● Duits Steenged: exhibition presenting 16th and 17th century German earthenware from the museum's collection. Most of the objects were produced in the Aachen-Cologne area; to Mar 9

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EXHIBITION
Kunststiftung Bremen Tel: 49-421-328060
● Paula Modersohn-Becker in Bremen: exhibition featuring some 100 paintings by the German artist Paula Modersohn-Becker (1876-1907) drawn from the collections of the Kunststiftung Bremen, the Paula Modersohn-Becker-Stiftung and the Kunstsammlungen Böttcherstraße; to Apr 8

COPENHAGEN

Det Danske
Kunstinstitut
The Danish Museum of Decorative Art Tel: 45-33149452
● Celebrating American Craft - American decorative art 1975-1995: the first major exhibition of American craft held in Denmark, featuring ceramics, fibre-glass, metal, textiles and wood. The display has been loaned from the American Craft Museum and includes works by 100 artists; from Mar 7 to May 4

EDINBURGH

EXHIBITION
Scottish National Gallery of Modern Art Tel: 44-131-5568921
● James McIntosh Patrick exhibition marking the artist's 90th birthday and featuring around 10 oil paintings, watercolours and prints. McIntosh Patrick's work concentrates on minutely-detailed panoramic landscapes; to Apr 20

FRANKFURT

ART & ANTIQUE FAIR
Alte Oper Tel: 49-69-1340400
● Antique Week: antique fair which includes a collection of jewellery shell combs by the jeweller Tommaso Saulini, dating from the early 1800s; from Mar 6 to Mar 9

HOUSTON

EXHIBITION
The Menil Collection Tel: 1-713-525-9400

the 25th anniversary of the commissioning of the Rothko Chapel, a unique assignment that allowed the abstract artist to explore potential interactivity between painting, architecture and natural light; to Mar 30

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● Trout Quintet: violinist Gidon Kremer, viola-player Veronika Hagen, cellist Clemens Hagen, double bass-player Alois Posch and pianist Oleg Maisenberg perform works by Beethoven, Schmitt and Schubert; Mar 7

EXHIBITION
Mayor Gallery Tel: 44-171-7343558
● Patrick O'Reilly. The Porcelain Drum: exhibition of work by the Irish artist who produces work that reflects a lifelong interest in philosophy; to Mar 19

CONCERT

Royal Festival Hall Tel: 44-171-9604242
● BBC Symphony Orchestra: with conductor Andrew Davis, soprano Louise Winter, baritone Alan Ogie, the BBC Symphony Chorus and the New London Children's Choir perform works by Stravinsky; Mar 7

EXHIBITION

Serpentine Gallery Tel: 44-171-4026075
● Richard Deacon: former Turner Prize winner; to Mar 15

commissioned for the Serpentine's lawn while the gallery is closed for renovation. The piece uses moulded polycarbonate to represent the Catalpa trees growing on the gallery's East side lawn; from Mar 5 to May 4

LOS ANGELES

EXHIBITION
Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100
● Picturing America: Benson J. Lossing's illustrated histories: display of historical drawings by the American artist and historian who wrote and illustrated pictorial field books of the US Revolution, the Civil War and War of 1812. Alongside the drawings will be original manuscripts, letters and printed volumes; to May 11

MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● SMS: Colección de Múltiples: display of work commissioned in the late 1960s by the New York surrealist William Copley, with the aim of producing art free of limitations on material; to Mar 10

MUNICH

OPERA
Cuvillies-Theater - Altes Residenztheater Tel: 49-89-296938
● Shantou Rose: by Sibelius. Conducted by Rüdiger Wenzel; to Mar 15

Staatsoper. Soloists include Judith Turos, Luca Masala and Krill Menikoff; Mar 7

NEW YORK

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● Mistress of the House, Mistress of Heaven: Women in Ancient Egypt: exhibition examining the role of women in ancient Egypt in the court, family and temple. About 200 objects will be on display, including 20 rarely seen pieces from the museum's permanent collection; to May 18

CONCERT

Carnegie Hall Tel: 1-212-247-7800
● Vienna Philharmonic Orchestra: with conductor Daniel Barenboim perform works by Beethoven; Mar 7

EXHIBITION

The Metropolitan Museum of Art Tel: 1-212-679-5500
● The Florene M. Schoenborn Bequest: 12 Artists of the School of Paris: a display of 21 major 20th century works given to the museum by Florene M. Schoenborn. The artists featured include Brancusi, Braque, de Chirico, Dubuffet, Matisse, Miró, Picasso and Rouault; to May 4

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-4778-1111

Contemporaine Dans les Collections Nationales: exhibition featuring photographs by contemporary artists such as Christian Boltanski, Alain Fleischer, Annette Messager, Jun Shiraoka and Helmut Newton; to Mar 31

CONCERT

Salle Gaveau Tel: 33-1 49 53 05 07
● Talich Quartet: perform works by Mozart, Shostakovich and Beethoven; Mar 8

THESSALONIKI

EXHIBITION
Thessaloniki Cultural Capital '97 Tel: 30-51-867860-6
● Image and Icon: exhibition examining Greek photography over the past 20 years. More than 280 photographs are on display by over 40 photographers. The exhibition is being held at the Macedonian Museum of Contemporary Art; to Mar 16

VIENNA

OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Fedora: by Giordano. Conducted by Luis and performed by the Wiener Staatsoper. Soloists include Cura, Chaignaud and Harris; Mar 6

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WORLD SERVICE

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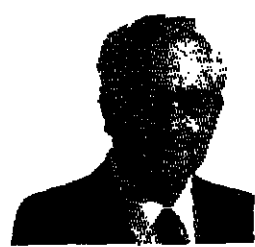
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COMMENT & ANALYSIS



Martin Wolf

To fund or not to fund

Although funded private pension schemes have attractions over pay-as-you-go state schemes, they may well not deliver adequate pensions

Are you a "baby-boomer", born, like me, shortly after the second world war? If so, are you wondering whether the generous pension you have been hoping for - or were even promised - will ever materialise?

The fear that pension promises will not be kept is pervasive. It has become a central theme in discussion of the bloated pay-as-you-go public pension schemes of continental Europe. These worries are not mistaken. As was argued in an earlier column (FT, January 28 1997), the extraordinarily generous pay-as-you-go public pension schemes of France, Germany and Italy look unsustainable in their present form.

Yet it would be wrong to conclude that adequate incomes in retirement will be provided in countries that rely heavily on private funded pensions, such as the UK. To appreciate the difficulties it is necessary to return to economic first principles.

However financed, a pension represents a claim on resources available at the time the pension is paid. This simple truth permits Mr Malcolm Crawford - a British economic journalist - to condemn those who attack pay-as-you-go pension schemes as promulgators of a big lie.

"Whether funding makes any difference to the consequences of an ageing population depends," argues Mr Crawford, "on whether it generates a higher level of gross domestic product between the time when contributions are paid and the period when those contributors receive their pensions".

Up to a point, Mr Crawford. He is wrong, for example, to examine funded pensions only in the context of a closed economy. What matters, therefore, is gross national product, which allows for net income from foreign investment. The distinction between GDP and

GNP is far from academic, largely because many of the highest yielding investments are likely to be abroad, particularly in developing countries.

How might the funding of pensions affect GNP? The obvious answer is that it would raise savings and so investment, both at home and abroad. But there is good reason to wonder whether pension funding would of itself increase national savings, unless people were compelled to save more than they would otherwise do. Generous incentives to pensions could even lower savings, since a target income can be achieved with lower outlays.

Certainly, there appears to be no clear evidence that funded pensions raise national savings. The savings rates of the US and UK, the members of the group of seven leading industrial countries with the highest dependence on private pension funds, are exceptionally low: 16.2 per cent of GDP in the US in 1994 and a mere 13.5 per cent in the UK, compared with much higher levels elsewhere (see table).

This doubt about the positive effect on savings taints

all proposals to privatise existing pay-as-you-go pensions. Professor Martin Feldstein of Harvard University has, for example, proposed the replacement of US social security by a funded scheme. But his analysis of its benefits and feasibility depends on his assumption that there will be "incremental real savings". Prof Feldstein assumes the return on the pay-as-you-go scheme is 1.2 per cent, while the return on the funded pension is 9 per cent. But the contrast depends on the assumption that the latter represents a net addition to the capital stock. If funded pensions merely substitute for other savings, the effects of the shift Prof Feldstein proposes would be much less favourable.

The chances that funding will not raise national savings significantly undermines the assumption that it would make pensions much easier to pay. Nevertheless, other economic effects of funding should not be forgotten.

The development of long-term pension funds will, for example, deepen the market for risk capital, with potentially beneficial effects on the economy.

Funded and pay-as-you-go public pensions are also subject to rather different risks. The latter are backed by the power to tax. This creates the political risk that politicians may find it convenient to renege on promises their predecessors found it convenient to make.

Yet private funded pensions also confront political risks: taxation may be changed or inflation promoted. More important, they are exposed to market risk - the most important of which is to equity prices. In particular, as funds sell assets to finance pensions in payment, they will drive down the prices of equities to some extent.

Thereupon, corporate sponsors of plans that promise a pension related to final pay would need to raise their contributions. This

The impact on the labour market may be still more unambiguously helpful. If the pensions people receive are closely related to their contributions, they will regard those contributions as savings. If they are not - as under most pay-as-you-go systems - the contributions look like a tax. A shift to a funded system should, therefore, raise the incentive to work and increase GNP. This is among the most significant advantages of the Anglo-Saxon, as opposed to the continental, pensions model.

The beneficial effects of funding on the labour market apply, however, far more to defined-contribution schemes, in which pensions are related to individual contributions, than to standard occupational defined-benefit schemes. True, defined-benefit schemes can help sustain mutually beneficial long-term relationships between employers and employees. But they also impair voluntary job mobility and provide an incentive for imposed early retirement and redundancy.

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Thereupon, corporate sponsors of plans that promise a pension related to final pay would need to raise their contributions. This

would cut their dividends, exacerbating the difficulties of other pension plans. As for owners of defined-contribution pension plans, they would find themselves poorer than they hoped.

A final problem with funded private pensions is that administrative costs are high. Partly as a result, they tend to exclude the least well-off segment of the population. For this reason, no high-income country has yet managed to provide a secure and adequate retirement income to all by relying on private funding alone. Either, as in the UK, there is a high degree of inequality among pensioners. Or, as in the US and continental Europe, there is heavy reliance on a public pay-as-you-go scheme.

Given the risks and costs associated with the different types of pension, the sensible approach is to offer a basic pay-as-you-go scheme, along with encouragement for private provision. Whatever one's government or employer may promise, it would be foolish to put all the retirement eggs in one basket. More important still, for most individuals - and for most countries - the ability to enjoy the pensions they hope for (or have received) depends on the ability to pay for them. Higher levels of individual - and national - saving than they have been prepared to make. Unfortunately for many older baby-boomers, this advice may already come too late.

Malcolm Crawford, "The Big Pensions Lie," New Economy, Spring 1997 (London: Institute for Public Policy Research).

Martin Feldstein, "Would Social Security Raise Economic Welfare? National Bureau of Economic Research Working Paper 5281; Feldstein and Andrew Samwick, "The Transition Path in Privatizing Social Security," NBER Working Paper 5761.

The varying role of private pensions



1. At the end of 1991. 2. Funded pension schemes. 3. Funded pension schemes and pension schemes of life insurers. 4. In Japan and Germany large funded pension plans are held directly on the firms' balance sheets. Sources: Davis (1995) World Bank Working Paper No. 1282; OECD

LETTERS TO THE EDITOR

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No Nato seat for Russia or Japan

From Dr Jonathan Eyal

Sir, I assume that Professor Richard Layard sought relief from his worthy academic pursuits when he ventured into grand strategic thinking by suggesting (Letters, February 28) that the current dispute over Nato's expansion can be avoided if Russia and Japan are offered eventual membership of the Atlantic alliance.

Quite apart from the fact that the two will first need to solve their territorial dispute over the Kurile islands, Nato membership makes no sense for either Japan or Russia. Just about the only issue on which the two may conceivably agree would be to regard China as a potential danger, and the encirclement of China can never be Nato's mission.

Has Prof Layard paused to think how Ukraine will react to such shenanigans? An institution which groups all the leading states in the Euro-Asian land mass already exists: It is called the United Nations.

Contrary to Prof Layard's belief, Nato's enlargement is not designed to "create a wider alliance against Russia". Indeed, the inclusion of a few central European countries is actually in Russia's interests. Poland, the Czech Republic and Romania will never be Russia's allies. Left outside Nato, these countries will start forming their own regional alliances with Ukraine and, once this process is complete, neither Germany nor Russia will be able to resist involvement. The surest guarantee against an arms race in central

Europe and a return to the disastrous game of balance of power is precisely through Nato's expansion.

The west, therefore, should have the courage to tell Moscow that, for the sake of future Russian generations and the security of an entire continent, Nato's enlargement will proceed. There is much that Russia and the west can do together, but indulging the dreams of some Moscow leaders about recreating a sphere of influence in the heart of the continent should not be one of them.

Jonathan Eyal, director of studies, Royal United Services Institute for Defence Studies, Whitehall, London SW1A 2ET, UK

Caribbean needs new deal

From Prof Bishnodat Persaud

Sir, I must congratulate Joe Rogaly on his highly informed piece ("Another finger in the banana pie", March 1) on the threats facing access of Caribbean countries to the EU. He is right to imply that this issue cannot be accepted simply as the inevitable consequence of moves to free trade.

The Caribbean recognises the need to rely more on free trade. The economies are being adjusted boldly from international and regional preferential systems, and significant achievements have been made in Trinidad and Tobago, Guyana, Barbados and some smaller islands.

However, when a fragile manufacturing sector built up by high levels of protection in these small islands is subject to increasing competition, erosion in export preferences in the EU and North America must not be unduly accelerated over areas such

as bananas, sugar, rice, rum, textiles etc.

The Caribbean entered the Lomé Convention with UK encouragement. The UK understands the special difficulties that would be faced in a speedy removal of trade preferences. In the past, the UK sought to protect Caribbean interests in Europe. The Caribbean needs a revised arrangement with the EU when the Lomé Convention is renegotiated. It must work with Britain and other sympathetic EU members towards such an arrangement, in which a regional adjustment fund and encouragement for private investment in services and non-traditional industries must help reduce poverty and unemployment, which are unusually high for these middle-income countries.

Bishnodat Persaud, University of the West Indies, Kingston, Jamaica

Government is not a black art

From Mr Robert McDowell

Sir, Philip Stephens is right, but for the wrong reasons, to say ("The apparition of opposition", February 25) that "it is absurd to argue that Labour is disqualified from office by its inexperience". Government is not a black art known only to experienced cabinet ministers, not so long as we have a free and inquiring press. It is the media's responsibility, along with that of the opposition parties, to ensure that government actions are transparent.

There are many who believe the Conservative party will benefit from the experience of a few terms on the other side of the House, by which measure Labour stands more than ready for the responsibilities of office.

Robert McDowell, Banking & Securities Industry Consultants, 17A St Bernard's Crescent, Edinburgh EH4 1NR, UK

Philip Stephens

No escape from the past

From the economy to Emu, Mr Major's case deserves a hearing but, after 18 years in power, his fractious party has seen voters' trust shift to New Labour



You can taste the frustration in 10 Downing Street. From the world outside the prime minister's inner sanctum comes a constant flow of disharmony and dissent. Forecasts of a narrow election victory for New Labour give way to predictions that Tony Blair will sweep to power in a landslide.

Within, John Major seems almost alone in believing that, if he could only raise his voice above the din, he might yet win the election. Almost alone. Michael Heseltine's wager that the Tories will secure a majority of 60-plus has crossed the line between bravado and fantasy. But, for the deputy prime minister, winning is a state of mind. He cannot function if he admits any other possibility.

There is a curious chemistry between the two men. They seem relaxed in each other's company. On most things they agree. It was not always thus. Mr Major long mistrusted the author of his succession to Margaret Thatcher. But the crude jostling for personal advantage among others in the cabinet - the latest from Stephen Dorrell, the health secretary - appears to have drawn the two men closer. Win or lose, Mr Heseltine does not intend to figure on the lengthy charge sheet of the disloyal.

The frustration is easily explained. The same opinion surveys which show Mr Major's government lagging an unprecedented 15 to 20 points behind New Labour, testify to the growing strength of the economic feel-good factor.

Those who witnessed Nigel Lawson's economic miracle shatter into recession are not much impressed by the politicians' hyperbole. There have been too many broken promises for that. But most people are better off. Inflation is subdued and the recovery does look sustainable. Mr Major might expect just the odd shred of credit.

Suddenly, Europe seems

less threatening too. Economic and monetary union - the rack on which the Conservative party has been all but broken - is a less certain prospect. Mr Major, it is said, is sure Helmut Kohl will acknowledge by the autumn that the single currency must be delayed.

This scenario would see the chancellor keeping faith with the German people by upholding the economic convergence criteria. The delay might be two or three years. If only the German chancellor would say as much now. Wishful thinking on Mr Major's part perhaps, but it is no longer an absurd proposition. And how futile then would seem the Tories' self-destruction on the rocks of Eurosceptic ideology.

So Mr Major's thoughts dwell ever more urgently on how he might break through to the voters, on how to push the stories of Tory disarray from their reserved slots on every front page. Running ahead of his party in the opinion polls, his will be a highly personal campaign. There will be the traditional rallies, of course. But, in the spirit of the soap box, other set-piece speeches will be delivered from the market square.

He is thinking hard about a televised debate with Mr Blair. The prime minister carries uncomfortable baggage on this issue. When Neil Kinnock laid the challenge in 1992, it was dismissed as the transparent ploy of losers. But, for all his feigned insouciance, Mr Major cannot ignore the polls. And, if the format of the encounter was right, there would be advantage.

A debate choreographed by one or two distinguished broadcasters, and without a rowdy studio audience, would allow him to break out of the soundbite politics which, perhaps because he has never mastered the technique, he detests. He does not intend to take the initiative. And Paddy Ashdown, the Liberal Democrat leader, would have to be nudged to one side. But the prime minister is not saying "No". Before that, he will set out his stall at the Conserva-

tives' spring conference in 10 days time. By then it should be clear the election date cannot be other than May 1. The Bath gathering will thus provide the platform for a long campaign.

Word has it that those on the Tory right looking for an ever wider sea of clear blue water between the two parties will be disappointed. Perhaps it is Mr Heseltine's influence, perhaps it is a mood of the moment. The modulation has changed many times before. Yet Mr Major seems at last to have rejected the nonsense that says he would do best by retreating further from the centre ground. It is here the election will be decided.

On the economy, the message is that only the Conservatives have the instincts to capitalise on recent economic success - witness the universal antagonism within Mr Blair's party towards the stories of Tory disarray from their reserved slots on every front page. New Labour's conversion to the market may be a compliment. It is also skin deep.

The prime minister, though, is less hawkish about spending and tax than the cabinet's apostles of small government. Abolition of inheritance and capital gains tax are long-term ambitions. A 30p basic rate of income tax is just about as far as any government could go without hollowing out the foundations of the welfare state. Mr Major's intention is otherwise.

On Europe too, there is an apparent disjunction

Mr Major's thoughts dwell on how he might break through to the voters and push the stories of Tory disarray from their reserved slots

between the cruder, flag-waving rhetoric and Mr Major's private realism. He is no friend of a single currency. He would think hard before giving up sterling.

For all that, there is something in the back of his mind that tells him a Conservative government might, just might, have one day to put economic prosperity before ideology, to trade sterling for jobs. Nor has he budged from the view, publicly expressed last year, that those who contemplate divorce from Europe are living in a faraway land of clouds and cuckoos.

In all this, and in the critique of Labour's plans for constitutional upheaval, Mr Major presents a case that demands a hearing. If others in his party will not make it, with Mr Heseltine's help, will do so regardless.

And yet, amid his frustration with the media and the malcontents on the Tory backbenches, my own view is that he knows in his heart it is probably too late to overcome the odds. The Conservatives have lost the most precious commodity in politics - the trust which persuades voters to give their politicians the benefit of the doubt.

That now lies with Mr Blair, acting as an invisible shield for New Labour against every Tory onslaught. It may be obvious to all that the opposition's arithmetic is at best inoperative, its plans for the constitution half-formed. Such flaws count for little against the benefit of the doubt.

In part, Mr Major is simply paying the price of the Tories' 18 years in power. Alongside, there is the poisonous legacy of Mrs Thatcher's dethronement, and its fatal entanglement with the politics of Europe. The discipline, factionalism and opportunism of cabinet and backbench colleagues alike is ever compounded by the re-emergence of enemies from the darker recesses of the Thatcher decade.

That, Mr Major would say, is the past; the election is about the future. But politicians can escape neither their parties nor their past.



GIORGIO ARMANI
LE COLLEZIONI

COMMENT & ANALYSIS

FINANCIAL TIMES

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Bank tremors in Thailand

It is no coincidence that the two Asian countries with serious banking problems are Thailand and South Korea. Both suffered a marked economic slowdown as exports weakened last year. Their banking troubles show how dependent Asia's financial institutions are on high economic growth feeding through into asset price inflation.

It has been clear for a while that a rescue operation will be needed for Korea's banks. Now Thailand has arranged a bailout of the Finance One finance company and launched a package of prudential measures. Its authorities, too, are finally being forced to recognise the severity of the problem their banks face with property loans.

Last year it was fashionable to dismiss comparisons between Thailand and Mexico. Thailand also relies heavily on short-term capital flows to finance a large current account balance of payments deficit, but the general view was that its higher growth rate would float it away from the kind of crisis that overtook Mexico in 1994.

That may still be the case. Thailand has reserves equivalent to more than six months of imports. Even if things deteriorate, there is no global systemic risk and there is unlikely to be a need for a Mexican-style international rescue.

But that is not to belittle the problem. Thai banks and com-

panies have large unhedged foreign currency borrowings. They will face serious repayment difficulties if the baht is allowed to fall. So the Bank of Thailand believes it must hold up interest rates, even though weak demand would normally indicate easier monetary policy.

The song is that this is stirring up further trouble in the financial sector. With something like 70 per cent of bank credit backed by property collateral or lent directly to that sector, more trouble is on its way. The new supply of property coming on to the market this year and next exceeds forecast demand by a multiple.

Thailand's authorities cannot wriggle out of the difficulty by persuading stronger banks to take over ailing institutions. That would only weaken the system as a whole. Some institutions must be allowed to fail. Confidence in the rest must be rebuilt with deposit protection, tighter accounting standards as well as strengthened capital and, if necessary, central bank liquidity support.

That need not mean the Thai miracle is over, still less that of Asia as a whole. Other countries, notably the Philippines and Malaysia, face a property glut. But immature economies will always suffer growing pains; Thailand's experience underlines the need for care in managing them.

Phone dilemma

As the bosses of American Telephone & Telegraph bare their souls before Wall Street, other telecom operators should wince in sympathy. AT&T's two-day meeting for analysts is more than just an opportunity for the company's new president, Mr John W. White, to reassure investors. It is also a reminder for telecom operators round the world that deregulation has two stages.

In the first stage, newly liberated monopolies - the AT&Ts, British Telecom, Deutsche Telekom - unleash the competitive energies held back by decades of regulation. Marketing is king; workforces are slashed; prices are set to maximise profits rather than to meet the arcane rules of regulatory accounting. New entrants find it hard going. The former monopoly's market share falls, but rapid growth in call volumes offsets this, and costs fall faster still. Customers and shareholders alike are happy.

The second stage is one which AT&T has already entered, and which the privatised telecom operators elsewhere will inevitably encounter in some form. In this phase, technological innovations and the hardware survival skills of the remaining new entrants start to offset the former monopolies' advantages of incumbency. No matter how fast the big company restructures, it finds it hard to offset

the flexibility of its smaller rivals. Not only can they offer lower costs, they may also be able to offer better service.

That leaves the big company with a dilemma. The costs of outflanking its smaller rivals, by yet more reorganisation, may be more than shareholders can contemplate. Yet without such a gamble, market share will erode at an accelerating pace, eventually making the big company's cost structure unsustainable.

For AT&T, the dilemma is particularly acute, since it faces a second set of competitors, in the form of its offspring, the Baby Bells. Many of these are still in the first, virtuous phase; and they inevitably have a closer relationship with local customers than AT&T. To compete in the local market without running wire down every street in America, AT&T plans to use "fixed wireless" technology. But even this is costly.

Yesterday and today, AT&T is telling its shareholders the unpalatable news: buying a route into the future is expensive. The lesson is relevant to other telecom operators, worldwide. For each, the precise threats are different. Yet all face a similar dilemma. They must continue to invest, yet cannot be sure of sustained returns. For the telecoms giants, the world is a riskier, more expensive place.

TV debates

The US does it - most parliamentary democracies in the western world now do it as a matter of course. Britain, by contrast, has never staged a televised debate between its main political leaders - before a general election or at any other time. The election due by May is the moment to correct this democratic anomaly.

Already, the three main party leaders are chafing with varying degrees of suspicion around the idea of a debate. But a clear challenge has yet to emerge either from Mr Tony Blair or Mr John Major. Behind the scenes, there is a swirling about of possible terms and the threat of legislation if Labour and the Tories conspire to exclude the Liberal Democrats' Mr Paddy Ashdown from an eventual contest.

This is feeble, and merely amplifies the vacuity of current political discourse. With policy differences between the main parties shrinking and reasoned policy discussion supplanted by clichés and slogans, the personalities and instincts of the party leaders assume greater importance. A properly organised TV debate is the voters' best chance to compare the candidates and test their arguments.

How do we get from here to there? Past experience is not encouraging. The tradition is of opposition leaders to challenge and incumbents to evade. The one exception was

down the giantist and challenge Margaret Thatcher refused to pick it up.

This time could be different. Given his recent poll showings, Mr Major has little to lose from a debate and potentially much to gain. He is an attractive and articulate performer in informal discussion, and he has a decent story to tell. The upside may be less significant for Mr Blair, but it could be damaging for him to duck a challenge.

One possible problem concerns Mr Ashdown. The Conservatives in particular - worried that the two other participants will gang up on their man - may try to exclude the Lib Dem leader on the grounds that he is not a potential prime minister. This would not only be to deny the political arithmetic that gives the third party the support of about a sixth of the electorate. Almost certainly it would also leave the debate idea legally stillborn.

This and other obstacles would be eminently surmountable within the right framework. What is needed is a neutral body - the Hansard Society and the Electoral Reform Society both spring to mind as internationally respected arbiters - to propose terms and negotiate with the parties on its own initiative. Left to themselves, the politicians will find it all too easy to fail to agree. They should not be allowed to do so, and in the process escape the

Curse of the pyramids

Albania's impressive transition to the free market is threatened by the storm over failed investment schemes, says Kevin Done

Albania is staring into the abyss. In the first fearful hours of a state of emergency, the country is in danger of slipping back into the chaos that marked its traumatic emergence six years ago from decades of Stalinist isolation.

Mr Sali Berisha, Albania's president, has failed to find a political solution to the rising wave of violent unrest that has swept the country during the past six weeks. On Sunday night, after the fall of the government led by Mr Aleksander Meksi, he took the desperate gamble of deploying troops to try to end the riots.

Triggered by the collapse of a string of fraudulent pyramid finance schemes that has cost many Albanians their life's savings, the current turmoil has developed rapidly from a financial disaster into a political crisis. But it also threatens to undermine the fragile stability of the surrounding Balkan region.

As Mr Berisha desperately tried to maintain his grip on power, he was re-elected president yesterday by parliament for a second five-year term - with 113 votes in favour, one against and three abstentions.

The result was never in doubt. His ruling Democratic party holds 122 of the 140 seats in the parliament following a general election last year which was widely condemned for ballot-rigging, intimidation and violence.

Even as Mr Berisha was swearing the presidential oath yesterday to "protect and develop democracy, freedom and human rights", the authorities were imposing a nationwide state of emergency with a dusk-to-dawn curfew, roadblocks and censorship of the media.

Such drastic moves come after months of already mounting concern in the west, and in particular in Washington, about the increasingly authoritarian nature of the Berisha government.

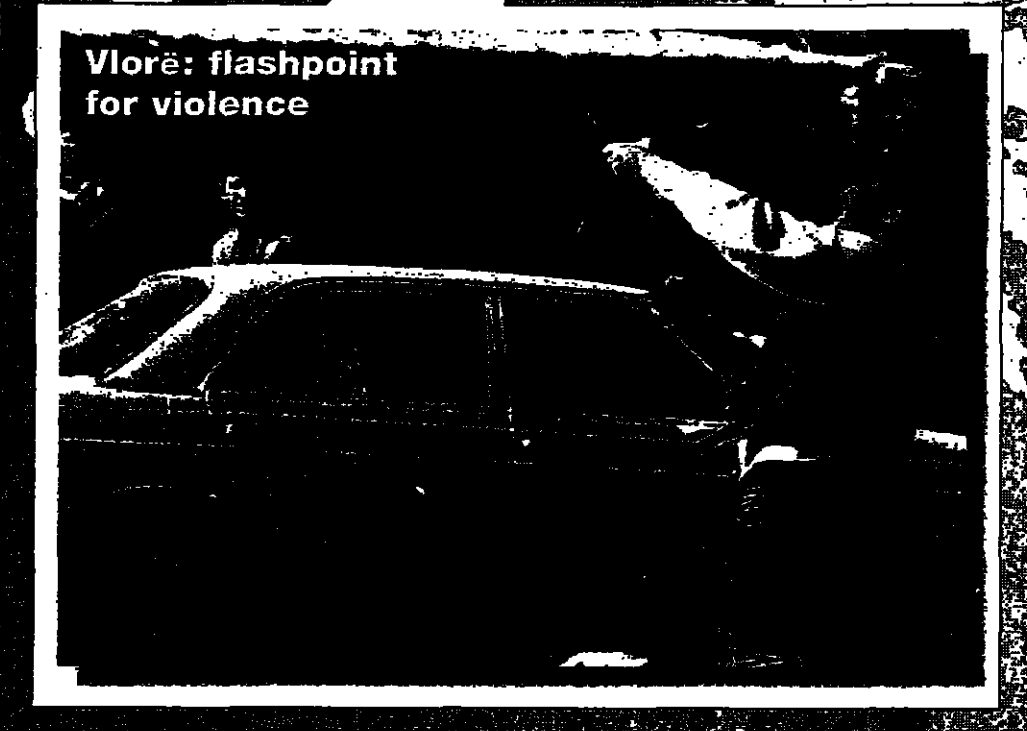
A recently published US government human rights report says that: "The flawed May elections, coming at a time of further government pressure on the judiciary and the press were major steps backward for democracy." According to the US study, organised crime has surged, the government's human rights record has worsened, while the judiciary is "hampered by political pressures, insufficient resources, inexperience, patronage and corruption".

Immediately after the fall of the communist regime, the country also lacked a functioning banking system, an environment that allowed the first pyramid schemes to establish themselves. The real pyramid scheme "mania" developed only during 1996, however, when new schemes were formed and competition drove up the interest rates offered. Albanians began to sell their homes, land or livestock to take advantage of promises from so-called charitable foundations to double their money in just two to three months.

According to western financial observers, more than \$1bn was invested in the schemes - equivalent to more than a third of the country's gross domestic product. The collapse of the schemes, which is still under way, has led to losses of hundreds of millions of dollars in savings and plunged many Albanians back into the



Vlorë: flashpoint for violence



poverty of the early 1990s. "These were the funds that should have gone into creating small businesses or paid for stakes in companies being privatised," says a foreign banker. "They should have been captured in savings accounts or gone into new housing."

The protesters and the opposition parties have called for the dismissal of the government, which has been widely blamed for allowing the development of the fraudulent pyramid finance schemes. For a moment at the weekend Mr Berisha's headline approach appeared to waver when he agreed that the Meksi administration should resign.

The gesture to the opposition forces was brief, however. Less than 24 hours later Mr Berisha imposed the state of emergency with a warning that the country faced the threat of civil war.

As Albania has plunged deeper into crisis the ruling Democratic Party has resorted to using the rhetoric of the regime it ousted. Mr Berisha vowed on Sunday to use the "iron hand" of the law to

crush the unrest in the country, which he described as "a communist rebellion backed by foreign intelligence agencies."

"This group has attacked the people, the institutions, broken the banks and freed prisoners. It is an armed communist rebellion. They have launched a war to take over the country."

The turmoil triggered by the pyramid schemes' collapse is jeopardising much of the undoubted achievement of the early Berisha years.

At the start of his presidency in early 1992 Albania was close to starvation, its economy at a standstill, its agriculture and obsolete heavy industries in collapse. The image of the time was of thousands of desperate Albanians clinging to the sides of rusting ships, seeking to flee to a better life across the Adriatic in Italy and elsewhere in Europe.

The country pulled back from the brink in remarkable fashion and enthusiastically espoused the transition reform programmes put forward by the International Monetary Fund, the World Bank

and other western institutions.

On a per capita basis, more aid was poured into Albania than into any of the other economies in transition from communism to the free market. The country was fast becoming a model pupil of the IMF and, with a population of only 3.2m, its problems, such as the absence of the institutions of a pluralist democracy, and a free market economy seemed manageable.

Less than two years ago, inflation was down to 6 per cent and economic growth was outstripping any other country in former communist eastern Europe. But those gains had already started to slip away as last year's election loomed, as the government began to lose control of the budget deficit, inflation started to rise and the momentum of reform and privatisation was lost. And with all attention focused on holding on to power, the government ignored growing warnings from the central bank about the dangers of the mushrooming pyramid schemes.

Albania was also becoming

caught up in a growing lawlessness, which the fledgling institutions of a newly democratic state were hard-pressed to counter. Corruption is endemic in Europe's poorest country, where average public sector wages are less than \$100 a month and gross domestic product per capita at around \$850 is on a par with many African countries.

Illegal activities have flourished, ranging from drugs and arms trafficking to the movement of clandestine immigrants across the Adriatic to Italy. The years of UN sanctions against Yugoslavia encouraged smuggling, in particular of oil, into neighbouring Montenegro and Serbia.

The process of unravelling the pyramid schemes is still far from over, and it is too early to assess the extent of the damage inflicted on the economy. The signs of concern are evident, however.

The currency, for several years one of the most stable in eastern Europe, has been devalued by more than a third since the beginning of the year, as confidence has ebbed away in the foreign exchange market. The rate of inflation is rising and in December had reached around 18 per cent year-on-year.

The budget deficit is under heavy pressure with the domestically financed deficit rising to 10 per cent of gross domestic product last year from 7 per cent in 1995. The economy is kept afloat only by the inflow of hundreds of millions of dollars a year from Albanians working abroad and from foreign aid - from the European Union, Italy, the World Bank, Germany and the US.

Albania's neighbours, Greece and Italy, are fearful of a fresh exodus of illegal immigrants. In Brussels and Washington, there is increasing alarm at the impact of mounting chaos in Albania on the neighbouring Serbian province of Kosovo where around 2m Albanians live.

The Kosovo Albanians, 90 per cent of the population, want independence from Belgrade which rules them with harsh repression in a virtual police state. Although they look strongly to Tirana for support in their cause, Mr Berisha administration has so far advocated peaceful protests within existing borders.

But there have been recent signs of greater militancy in Tirana where an embattled government could seek a diversion from its domestic woes. Even without the latest turmoil, Kosovo was already regarded by many observers as the most explosive problem in the Balkans tinderbox after Bosnia.

Little can be determined, however, until the government succeeds in resolving the immediate challenge it faces on the streets. The ultimate price of paying off demonstrators and restoring calm through some type of government bail-out for devastated savers could easily take Albania into a spiral of hyperinflation.

Albania is a country with a legacy of fearful wounds suffered in 50 years of virtual isolation from the world under the harsh communist regime of Enver Hoxha. Sadly Mr Berisha, a former cardiologist and doctor to the communist elite, has yet to show that he can provide the care to help the country heal the scars.

OBSERVER

at the

Back chat

Women's work

buy-out fund owned and run by women; they argue that the feminine viewpoint gives them an edge.

Hard stuff

Thai in knots

buy-out fund owned and run by women; they argue that the feminine viewpoint gives them an edge.

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Financial Times

100 years ago

Millions Of Tarnation Dollars The Republican Club of New York City is exercised in mind by reason of the stubborn refusal on the part of Canada to beg for a share of the stars and stripes. The collective genius of the Club has committed itself to putting the matter to rights. Canada, it appears, has been making money under the regulations that permit traffic to be carried from one point in Canadian territory to another via the United States without paying duties. The value of the regulations is said to be \$20,000,000 per annum to the Canadian railways. That settles the matter. No reasonable American can be blamed for a shriek or two when twenty million tarnation dollars are going into a stranger's pocket.

50 years ago

Military Integration Integration of the British and French military forces would open the way for decisive economies in manpower for both countries. Britain is maintaining a military force far in excess of pre-war levels at a time when her home labour ranks urgently call for reinforcement. France has an unduly large proportion of her population similarly occupied when she urgently needs labour for agriculture.

Fears grow for future of loan companies

Thailand halts trade in financial stocks

By Ted Bardacke
in Bangkok

Thailand's finance officials suspended trading yesterday in banking and other financial sector stocks and announced a series of measures to prevent the collapse of the country's financial companies.

Mr. Anuray Viravan, finance minister, said he could not guarantee that dealing in the stocks - which account for about 35 per cent of total market capitalisation and about 70 per cent of trading volume - would resume today.

In reply to criticism from local and international investors for ordering the suspension of the bourse's most liquid stocks, he said he wanted to avoid any panic after the near collapse last week of Finance One, Thailand's largest finance company.

He said the pause in trading would give the market time to absorb the new measures, under which banks and finance companies will be required to increase provisions for bad debts. They will have to make provisions over the next two years for substandard

loans, in addition to the bad and doubtful loans they are already obliged to cover.

The cost is estimated at \$22m for banks and \$10m for finance companies.

Some companies will also have to increase their capital. Ten finance companies with "liquidity problems" have been ordered to do so immediately. The finance companies have tended to lend to people and companies who would find it hard to borrow from banks.

The central bank will act as the lender of last resort to enable companies to meet the new provisioning and capital requirements.

Analysts estimate that five of Thailand's 15 commercial banks will need to increase provisions, and that most of the more than 90 finance companies do not even meet existing provisioning requirements - and will be unable to raise sufficient capital in the current environment.

Many of these may end up under the protection of the central bank, merge, or be taken over - as was the case with Finance One. Its takeover by Thai Danu Bank, a small

commercial bank, was approved yesterday.

Bankers said the measures would strengthen the financial system's ability to withstand future problems. "Most important is that there is a strong formula for reserving for doubtful debts. This is fundamental for good financial management," said Mr Banthorn Lamsam, president of Thai Farmers Bank.

Yet, after weeks of denying that such problems exist, the admission by the central bank that several finance companies face liquidity crunches - combined with the unprecedented trading suspension - heightened fears that a systemic crisis was developing.

Despite a televised exhortation from Mr Chavalit Yongchaiyudh, prime minister, for "people to stop and think before growing panicky", many finance companies reported runs on deposits. The stock exchange closed down 2.75 per cent.

Victim of a deadly financial cocktail, Page 4; Editorial Comment, Page 15; Observer, Page 15; See Lex.

Albania re-elects president as violence escalates

By Kevin Done in London

Mr Sali Berisha, Albania's embattled president, was elected unopposed for a second five-year term by parliament yesterday, as the authorities enforced a state of emergency in an attempt to quell weeks of civil unrest.

The interior ministry said "armed rebels" would be shot if they did not surrender weapons by yesterday afternoon. But demonstrators in Vlore, Saranda and Gjirokastra, the southern towns where violence escalated over the weekend, were back on the streets yesterday evening.

Greek television showed chaotic scenes of protesters in Saranda firing pistols and automatic weapons into the air and shouting for President Berisha to resign. Children were shown brandishing grenades outside looted shops and a burned-out police station.

The television showed protesters, who had seized control of an Albanian naval base outside the town, aboard a ship. They were planning to sail several patrol boats to the Greek island of Corfu to keep them out of the hands of the Albanian military.

"It's a popular rebellion and there is no sign at the moment of the police or military coming to intervene," said Mr Thomas Mitsiou, a member of the Albanian parliament for the ethnic Greek political party.

The caretaker government introduced other measures, including controls and an extension to military service.

The state of emergency was declared on Sunday night in an attempt to halt protests against the collapse of a string of fraudulent pyramid finance schemes in which many Albanians have lost their life savings.

Mr Berisha was re-elected by 113 votes to one with four abstentions. His ruling right-wing Democratic party won in last year's general election, which was widely condemned for ballot rigging, intimidation and violence. The main opposition Socialist party is boycotting parliament.

The European Commission appealed to the opposition and government to show restraint. Greece and Italy yesterday moved to tighten border controls amid rising anxiety about an exodus of illegal emigrants. Italian marines mounted a helicopter mission to evacuate 35 foreign nationals trapped in Vlore.

Additional reporting by Karin Hope in Athens, Robert Graham in Rome and Lionel Barber in Brussels

Curse of pyramids, Page 15

THE LEX COLUMN

AT&T's alarm call

AT&T has become to telecommunications what International Business Machines was to computers: a lumbering giant with little idea of how to respond to nimble competitors. Despite endless rounds of reorganisation, it has never managed to root out its bureaucratic culture. Now Mr John Walter, AT&T's new president, is embarking on yet another restructuring. He is also investing \$50m-\$60m this year (compared with \$6.8m last year) to catch up faster rivals at home and abroad. Not only has British Telecommunications stolen a march in international markets, the likes of WorldCom and MCI have attacked the local US market - which is just opening up - more aggressively. Meanwhile, AT&T seems at a loss over how to stem the decline of market share in its core long-distance market - and that is before competition from the local Baby Bells has been fully unleashed.

All this makes for a pretty depressing picture in the short term - hence yesterday's profit warning. The bigger worry is that AT&T may have missed the boat and that the extra billions will be money overboard. Investors must be hoping Mr Walter can resuscitate AT&T's share price the way Mr Louis Gerstner revived IBM's. But it would be premature to bet on it.

The television showed protesters, who had seized control of an Albanian naval base outside the town, aboard a ship. They were planning to sail several patrol boats to the Greek island of Corfu to keep them out of the hands of the Albanian military.

Thailand

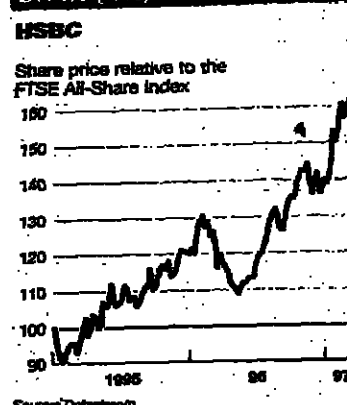
Thailand's banking sector has been an accident waiting to happen.

Thailand is a sick tiger and the almost 50 per cent decline in its stock market since January 1996 suggests the extent of its malaise.

The banking sector has been at the heart of the problems, lending over-zealously. Poor loans have traditionally been bailed out by asset inflation, but not this time. And problems have been exacerbated by the government's struggle to protect the currency, resulting in a sharp increase in short-term interest rates. So it is hardly surprising that the government is belatedly trying to encourage the strong banks to rescue the weak.

It is tempting to suggest that a dose of corporate Darwinism would be best. After all, many finance houses have been brought to their knees by incompetent or possibly even corrupt management, so why should taxpayers or shareholders in stronger banks bail them out? The problem is that a policy of letting them go bust would not only result in depositors stampeding to take

FTSE Eurotrack 200:
2171.5 (-9.2)



Share price relative to the FTSE All-Share Index

Source: Datastream

cash out of the banking system but would also spark a run on the Thai baht. Given the extent to which industry has funded Thai assets with dollar loans, a weaker baht would spark even greater problems.

Nonetheless, the government's move to suspend trading in all banking stocks looks about as astute as the Hong Kong stock exchange's similar attempt to hold back the October 1987 crash. It not only reminds investors of the risks of emerging markets but also shows just how concerned the government is about the banking system. Banks and finance houses generate around half the stock market's profits, so investors are in for a rough ride.

HSBC

HSBC's strategy of becoming the holding company for a global bank may be beginning to work.

Shareholders have gained little benefit from its moves to dilute Asian earnings through acquiring UK and US banks, and its shares trade at a conglomerate-style discount to the sum of its parts. However, HSBC's size has enabled it to run smaller banks which would otherwise be too small to be truly competitive.

Midland has substantially improved its cost/income ratio and taken market share, despite being the relative minnow among the big four British banks. Marine Midland in the US has similarly become a very low-cost bank, benefiting from HSBC's bulk through cheaper technology and capital.

The only area where the group retains too much fat is its balance sheet. The management argues that in Asian markets where customers have no deposit insurance, banks

need strong balance sheets. But a group could hand back \$50m in shareholders and have a tier 1 capital ratio higher than most UK banks. However, the group was probably loathe to make acquisition such as beefing up its fund management business. It clearly finds current prices unpalatable, but if management will be tempted to back and wait for the proverbial golden opportunity.

Nonetheless, the group's Asian growth prospects contrast with more pedestrian UK banking sector ratings, meaning the shares remain attractive. And with all that is a more generous dividend pay-out

JSkyB

No sooner has Mr Rupert Murdoch put his US pay-television venture on to a firmer footing than Japanese plans are wobbling. Be forced to sell their stake in JSkyB is a blow for Mr Murdoch.

News Corporation and Softbank, entrepreneurial local partner. Though they have managed to sell for the price they originally paid, News Corp will presumably sit on a dollar less given its recent depreciation. Moreover the episode demonstrates the difficulty of breaking into Japanese broadcasting: simply barging does not work, as Mr Murdoch has also found to his cost in China.

That said, the move could be out to be a case of *recluse phoenix saviour*. The main prize JSkyB, News Corp's and Softbank planned satellite platform. The original swoop on TV Asahi, a conventional broadcaster, was designed to help generate Japanese-language programmes for the platform. JSkyB not prepared to play ball, sensible to sell the stake and try out a friendly deal. There is still deal, only vague pretensions friendship. Moreover, JSkyB still from being a late entrant in a thronged fight. Still, the market far from seven up; and, if JSkyB manages to clinch Sony as a partner, it will look stronger.

The saga illustrates yet again that multi-channel TV is a theorist's dream but a practitioner's nightmare. But that, of course, one reason why News Corp ought have a competitive advantage: has much experience confronting precisely such problems.

Additional Lex column on Avis, Page

Murdoch sells stake in TV group

Continued from Page 1

to have been under pressure from Asahi group to buy the stake.

The disposal is seen as a sign that the News Corp-Softbank alliance had not been able to achieve its targets. For example, shareholder opposition had stopped it sending directors to the TV Asahi board.

"They had a stake, but no control," said Mr Paul Smith, analyst at HSBC James Capel.

The two companies jointly own JSkyB, the satellite multi-channel broadcaster due to start services next year. Mr Murdoch had stressed that the co-operation of Japanese broadcasters would be crucial to JSkyB's success. He had sought that co-operation through the TV Asahi stake.

Instead, he has received a loose commitment from the Asahi group to "maintain friendly relations and co-operate as much as possible in JSkyB" in return for selling the stake.

"The merits [of the sale] are very clear. The first is that it has resulted in an even closer relationship with Asahi Shimbun and not just TV Asahi," said Mr Murdoch. "It was a good experience which I think will lead to an even better experience."

UN sees tax law as key to drug battle

By Ian Hamilton Fazel
in Vienna

Tax evasion should be included in all extradition treaties to help fight drug trafficking and money laundering, the United Nations agency for monitoring the narcotics trade says in a report today.

The Vienna-based International Narcotics Control Board says it is essential to counter money laundering more effectively in order to destroy international drug cartels, and that most money laundering involves tax evasion.

But many countries exclude tax and fiscal offences from extradition treaties, and developing countries are particularly likely to forbid extradition for such offences.

The report says tax evasion is an important weapon against drug traffickers because of the way the illegal drug trade - worth an estimated \$500bn a year - has become global.

"The organisers of a criminal network may be based in one country, the producers in a second, the distributors in a third and the proceeds may be laundered in a fourth," the board points out.

The UN agency says governments could do more to co-operate against drug trafficking. "Many states refuse to

extradite their own nationals," it says. "The time has come to consider alternatives to such blanket refusals."

One possibility is that people extradited for trial would be returned to their own country to serve a sentence, helping poor countries which cannot afford maximum-security prisons and allowing prisoners to be nearer their families.

The report does not consider the issue of extradition from a country which does not have the death penalty to one which does. Some countries, such as the Netherlands, never allow their nationals to be extradited in such circumstances.

The board says most police forces do not have the resources and skills to do more than arrest street sellers and drug users, "leaving intact the structure of the production and distribution chain and, above all, the management."

"A more strategic approach to tackling drug trafficking is needed to reduce supply and free the stretched resources of national criminal justice systems," the report says.

"The aim should be to disrupt the operations of entire drug gangs and eventually put them out of business."

"Weak and permissive jurisdictions can be strengthened and safe havens gradually eliminated," the board adds.

FT WEATHER GUIDE

Europe today

Rain will occur along a front stretching from Ireland across Belgium and southern Germany to Austria.

South-west Norway will also have rain, while the south-east will have a mixture of sun and cloud.

The northern Benelux will have some sun and northern Germany will be very sunny. Poland and the Baltic states will have sunny periods.

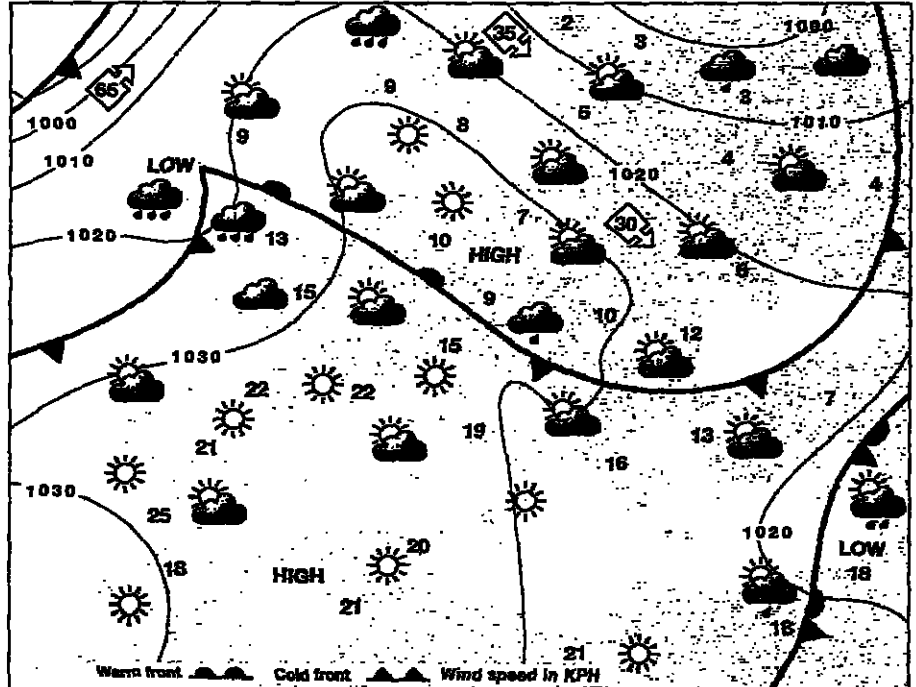
Southern Europe and the Mediterranean will be sunny, although the eastern Mediterranean will have a shower or two, as a disturbance lingers.

The Balkans will be mainly dry with some sunny periods. Ukraine and Russia will have sunny periods.

Five-day forecast

High pressure will provide most of north-western Europe with fair conditions over the next few days, although a series of fronts will produce some cloud.

The western Mediterranean will have ample sun, while a new disturbance will develop in the east.



TODAY'S TEMPERATURES

Madrid	sun 12	fair 28	Paris	sun 11	fair 18	London	sun 10	fair 15	Edinburgh	sun 9	fair 12
Amsterdam	sun 10	fair 15	Berlin	sun 11	fair 16	Stockholm	sun 10	fair 14	Oslo	sun 9	fair 13
Warsaw	sun 11	fair 17	Brussels	sun 11	fair 16	Vienna	sun 11	fair 17	Zurich	sun 10	fair 16
Bombay	sun 35	fair 32	Delhi	sun 30	fair 28	Calcutta	sun 28	fair 26	Colombo	sun 27	fair 25
Singapore	sun 30	fair 28	Manila	sun 28	fair 26	Seoul	sun 18	fair 16	Tokyo	sun 17	fair 15
Hong Kong	sun 28	fair 26	Beijing	sun 15	fair 13	Shanghai	sun 14	fair 12	Guangzhou	sun 13	fair 11
Perth	sun 22	fair 20	Melbourne	sun 20	fair 18	Sydney	sun 21	fair 19	Auckland	sun 18	fair 16
Wellington	sun 17	fair 15	Dunedin	sun 16	fair 14	Christchurch	sun 15	fair 13	Wellington	sun 14	fair 12
Canberra	sun 18	fair 16	Adelaide	sun 17	fair 15	Brisbane	sun 19	fair 17	Melbourne	sun 18	fair 16
Perth	sun 22	fair 20	Melbourne	sun 20	fair 18	Sydney	sun 21	fair 19	Auckland	sun 18	fair 16
Wellington	sun 17	fair 15	Dunedin	sun 16	fair 14	Christchurch	sun 15	fair 13	Wellington	sun 14	fair 12
Canberra	sun 18	fair 16	Adelaide	sun 17	fair 15	Brisbane	sun 19	fair 17	Melbourne	sun 18	fair 16
Perth	sun 22	fair 20	Melbourne	sun 20	fair 18	Sydney	sun 21	fair 19	Auckland	sun 18	fair 16
Wellington	sun 17	fair 15	Dunedin	sun 16	fair 14	Christchurch	sun 15	fair 13	Wellington	sun 14	fair 12
Canberra	sun 18	fair 16	Adelaide	sun 17	fair 15	Brisbane	sun 19	fair 17	Melbourne	sun 18	fair 16

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COMPANIES AND FINANCE: THE AMERICAS

ABN Amro buys futures trader

By Laurie Morse in Chicago

ABN Amro, the Netherlands bank, has extended its reach into US capital markets by buying Citicorp's global futures trading business, through ABN Amro Chicago Corporation, its US subsidiary.

Citicorp's futures business had been on the market since last September, when the bank decided to concentrate on its core banking activities.

Though small in transaction terms - the deal was estimated at less than

\$20m - the Citicorp purchase will give a sizeable boost to ABN Amro's futures business.

The Dutch bank is the second-largest foreign bank operating in the US, with North American assets of \$70bn.

It moved into US investment banking in January, with the acquisition of Chicago Corporation, a regional investment banker with domestic futures trading and clearing capabilities.

The addition of Citicorp's futures business will speed ABN Amro Chicago Corpora-

tion's goal to be a global futures concern.

"It will give us an office in Singapore, and a London office with about 50 people, as well as capabilities to clear Life [the London International Futures and Options Exchange]," said Mr James Gary, head of the group's futures business.

Citicorp has agreed to send all its proprietary futures trading business through the new ABN Amro unit, Mr Gary said.

"Our parent company has told us to create and manage a global futures business,

and this is an excellent way to expand and pick up experienced people," he said.

The move into global futures dealing is a diversification for the Dutch bank, which has been on an acquisition march through the Midwest during the last five years.

It has added more than half-a-dozen thrills to LaSalle Bank in Chicago, its North American flagship.

Late last year it made its biggest acquisition ever, buying Standard Federal in Michigan for \$1.9bn.

Having steered a middle-

market course to attract deposits and write loans in the Midwest, ABN Amro is looking for greater exposure in US capital markets.

Executives say it is continuing to shop for an acquisition that would put it into the asset management business in the US, and it may also grow or acquire an over-the-counter derivatives dealing operation.

"These are all areas where our parent company has told us to grow," said Mr Perry Taylor, executive vice president of ABN Amro Chicago Corporation.

Salomon moves a top job to London

By Tracy Corrigan in New York

Salomon Brothers has appointed a new London-based chief economist, Mr Kermit "Kim" Schoenholz.

It is the first time that the senior research job at the US investment bank has not been based in New York.

Mr Schoenholz replaces Mr John Lipsky, who left to join Chase Manhattan in January as chief economist and director of research. Mr Schoenholz, a former academic, joined Salomon in 1986 and has worked for the firm in New York, Tokyo and London.

The appointment highlights a growing trend among US investment banks.

Once highly-centralised, they now run some of their global businesses out of London, rather than New York.

This is particularly useful in jobs where it is important to talk to traders in London, Tokyo and New York.

London's position between the Japanese and US trading days facilitates such communication.

"Kim's experience in New York, London and Tokyo will provide the ideal perspective as our clients deal with the challenges of a dynamic economic and political environment," said Mr Deryck Maughan, chairman and chief executive officer at Salomon Brothers.

Salomon's global head of its important proprietary trading business, Mr Shigeru Miyajima, is already based in London.

At Goldman Sachs, two senior research posts - those of chief international economist and chief currency economist - are held by Mr Gervyn Davies and Mr Jim O'Neill, respectively, both of whom are based in London.

J.P. Morgan has two global business heads in London - head of credit and head of equity derivatives.

"In today's global markets, we find it just as easy to head groups from London as from New York," J.P. Morgan said.

As head of global economic and market analysis, Mr Schoenholz will be responsible for directing Salomon's team of economists based in New York, London, Tokyo and Hong Kong, the firm said.

As members of his team, Mr Robert DiClemente will assume responsibility for US economic research, while Mr Robert Feldman will continue as head of Japanese economic research and Mr Desmond Lachman will run global emerging markets research out of New York.

AMERICAS NEWS DIGEST

Western Resources amends ADT offer

Western Resources, the US power company, increased by 33 per cent the cash portion of its offer to acquire home security group ADT, but the total value of the offer remains \$22.50 a share. Western Resources also said it could realise about \$450m in net proceeds from the sale of ADT's car auction business after closing the acquisition. Western Resources, which is the largest shareholder in ADT, is pursuing a \$2.8bn hostile takeover of ADT. Although the cash portion of Western Resources' offer rose to \$10 a share from \$7.50 a share, ADT shareholders would now receive \$12.50 in Western Resources common stock for each ADT share, rather than \$15 a share in Western Resources stock under the previous offer. Western Resources shares were 33% in early trading, up 5% from Friday's close. AP-DJ, Kansas

Thomson names new chief

Thomson Corporation, the Canadian-controlled media and travel group, has named Mr Richard Harrington to take over as chief executive from long-serving Mr Michael Brown. The move coincides with a rearrangement of duties among various senior lieutenants of Mr Ken Thomson, whose family owns 72 per cent of Thomson Corp. Mr Thomson, son of the late Lord Thomson of Fleet, former proprietor of The Times, takes little active role in his companies' day-to-day operations.

Mr Brown, who has been chief executive since 1986 and turns 63 in May, was named deputy chairman of Thomson, succeeding Mr John Tory, 68, who is Mr Thomson's closest adviser. Mr Brown said he planned to devote about two days a week to Thomson business, but would take a more active interest in other Thomson-controlled companies, such as Hudson's Bay, Canada's biggest retailer, and Markborough Properties. Mr Harrington, 50, will initially be chief operating officer, but is due to become president and chief executive by the beginning of 1998.

Thomson shares, which have risen strongly in the past year, gained 35 cents to C\$38.40 in early trading in Toronto yesterday. Bernard Simon, Toronto

Read-Rite rejects bid

Read-Rite, a California manufacturer of computer disk drive components, yesterday said its board had unanimously rejected a hostile takeover bid from rival Applied Magnetics. Remaining an independent company offered the best opportunity for Read-Rite shareholders, employees and customers, said Mr Cyril Yansouli, chairman and chief executive.

Since the stock-swap bid was launched a week ago, shares of Applied Magnetics have fallen sharply, from a pre-bid price of \$59 to a low of \$37 on Friday, reducing the value of the proposed deal by about 30 per cent to about \$1.26bn. However, they picked up yesterday, gaining 3% to trade at \$41 in mid session. Read-Rite was up 1% at \$31. Louise Kehoe, San Francisco

Tenneco plans buy-back

Tenneco, the US packaging and automotive parts group, said it would repurchase about 5 per cent of its outstanding shares in a buy-back programme valued at \$340m at today's market prices. The company said it would repurchase up to 8.5m shares. Tenneco is in the midst of five-year restructuring, and has already been aggressively repurchasing its shares. In 1995 and 1996, Tenneco repurchased about \$750m of its stock. Laurie Morse, Chicago

Celulosa Arauco disappoints

Celulosa Arauco, the wholly-owned forestry subsidiary of Copec, Chile's biggest private company, posted disappointing end-year results on Monday, with net earnings of 41bn pesos (\$93m), down by 70 per cent on last year's 137bn pesos. Revenues were also down sharply, by 35 per cent, to 179bn pesos from 274bn pesos. Earnings were some 10 per cent lower than expected. This was after factoring in the effect on the year-on-year results of the drop in international wood pulp prices. CelArauco's main product. In 1995, prices were unusually high, averaging \$810 a tonne over the year. During 1996, by contrast, the price was almost half that, closer to \$455 a tonne. The company produced 886,000 tonnes of pulp in 1996. Late last year it paid \$270m for Alta Parana, a pulp plant and forestry interest in Argentina, which increased its installed capacity to about 1.1m tonnes. Imogen Mark, Santiago

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Acer Computec seeks bigger network

Mexican computer group aims to repeat its home success across South America

In little more than five years, a locally-owned and recently-listed personal computer company has come from nowhere to become Mexico's best-known and top-selling brand.

Acer Computec Latin America, which assembles and distributes computers made by Acer, the Taiwanese company, has risen by relentlessly exploiting a niche that bigger computer groups have passed by - individuals and small businesses in Latin America.

Today, its stock is one of the few direct exposures to the \$5bn Latin American PC market.

Now the company is turning its attention to the rest of Latin America, including finalising a \$30m acquisition in Brazil.

Mr Sebastien Chatel, an analyst at Caspian Securities in Mexico City, says: "In Mexico, their best days have already been and gone. Their future growth is clearly in South America."

Acer's success in the late 1990s came from relentless price-cutting. By 1995 it was Mexico's leading brand, with one-third of the market, and employed 130 workers at its assembly plant in Mexico City.

The company also expanded throughout Spanish-speaking America.

Sales increased even after the peso devaluation almost

halved the Mexican computer market in 1995. Only this year is the market expected to recover to the levels of 1994.

Last July, the company floated 23 per cent of its stock since when its shares have risen 40 per cent, although recently declining, to give a market capitalisation of more than \$358m.

Sales in 1996 rose 21 per cent in peso terms, to 3,47m pesos (\$435m), and 37 per cent in dollar terms. Operating profits of 240m pesos were 40 per cent up on 1995 in peso terms.

But Acer's attempts to move beyond home users and small businesses in Mexico have not all prospered. The company's market share in Mexico dipped 4 percentage points to 27 per cent in the third quarter of last year.

Government purchases of rival brands affected the figures. In the past, sales to state entities were a foundation of Acer's success.

"When you have 26-30 per cent of a market, the only thing you can do is grow at the rhythm of that market," says a mildly frustrated Mr Juan Manuel Rojas, Acer Computec chief executive.

There are strong barriers to penetrating the corporate market.

"If a multinational's global headquarters says its operations here have to buy

a Hewlett-Packard, there is little we can do," he adds.

Mr Rojas is planning, however, to continue expansion throughout Latin America. For the region as a whole, the company has 11.5 per cent of the market. Mexico now accounts for only one-third of sales.

Following a recent agreement by Acer to buy Texas Instruments' laptop computer division, Acer Computec's market share in laptops is set to increase throughout Latin America.

Most of all, it is Brazil that interests the group. In January, Acer Computec agreed to buy ACBr, the Taiwan group's Brazilian assembler and distributor, for an estimated \$25m-\$30m. The transaction should be finalised by the end of this month.

Great hopes ride on the acquisition. Brazil accounts for 40 per cent of the Latin American market, yet Acer's market share there is only 4.4 per cent.

Formidable import barriers and the easy availability of cheap black-market components mean that most PCs sold in the country are clones - computers whose circuits are slapped together from various sources before they are sold, under no particular label.

The international computer manufacturers are also



Juan Manuel Rojas: planning to continue expansion

well established in Brazil. Although Acer Computec is looking to South America, its position in Mexico will be hard to replicate.

In Mexico's department stores and computer shops,

it is still Acer models that enjoy wide of place. Computers made by bigger manufacturers are relegated to the corner.

Daniel Dombey

US-led group eyes stake in Cableuropa

By Raymond Snoddy

A group of US companies brought together by Callaghan Associates International is negotiating to buy a 30 per cent stake in Cableuropa, the large Spanish cable and telecommunications group.

Cableuropa has shares in cable companies with provisional licences in areas such as Barcelona, Santander, Seville, Majorca and Valencia.

The company also intends to pursue a number of other cable licences about to be awarded in Spain, all of which will require significant new capital.

The US-led consortium brings together GE Capital, US West, the regional telephone company, Bank of America and UBS, the Swiss banking group, in addition to Callaghan Associates.

Callaghan Associates is a new company founded by Mr Richard Callaghan, former president of US West International, to finance, develop and acquire communications and media companies.

The Cableuropa deal would be the company's first big move, although a number of other deals are believed to be under negotiation.

However, reports from Spain suggest that the consortium's attempt to win a 30 per cent stake in Cableuropa is being opposed by a group of local electricity companies - Endesa, Union Fenosa and Hidrocarburos - which control 32.5 per cent of the capital.

The US consortium would, however, be in a position to help fund the large capital sums needed to construct cable networks across Spain.

Talks between Cableuropa and other potential partners have not made much progress, it is believed.

Apart from the cost of constructing cable networks, bidders for cable licences have to submit a deposit of Ptalbn (\$6.97m).

Spain is seen as an increasingly important market for the new media, and one which is attracting participants from the rest of Europe and North America.

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COMPANIES AND FINANCE: THE AMERICAS

Banking with a popular touch

Brazil's Banco Excel invests in football and carnival to attract potential clients

Football and carnival are the secret to success in Brazilian banking, believes Mr Ezequiel Nasser, chairman of Banco Excel Econômico and a scion of the Safra banking dynasty.

Last May Banco Excel, Mr Nasser's modest wholesale bank, acquired Banco Econômico, a large retail bank that had been temporarily shut by the authorities because of a R\$2.5bn (US\$2.04bn) hole in its balance sheet.

To restore the reputation of Latin America's oldest bank and to turn it into one of the top five financial institutions in the country, Mr Nasser has begun to invest heavily in the two most popular activities in Brazil.

Behind this high-profile plan is a race between Brazil's banks to sign up the millions of new clients that the country's economic reforms have delivered to the financial services market.

The focal point of Mr Nasser's strategy is Corinthians football club. Excel Econômico will spend more than R\$30m over the next two years on the São Paulo team, which has an estimated 18m fans, the second-largest supporter base in Brazil.

Some of this money has bought star players such as Túlio, one of the country's best-known strikers. The bank's name is emblazoned on the team's shirts at a cost of about R\$15m.

However, there is more to this than just sponsorship. In televised matches, during half-time, players such as Túlio and midfielder Marcelinho appear in commercials urging fans to place their deposits with Excel. Off the field, the players are salesmen for the bank.

Mr Nasser displayed the same popular touch during Brazil's carnival holiday earlier this month. While Carlinhos Brown, a pop singer, was appearing in its TV adverts, the bank was spending about R\$500,000 sponsoring the private box of Daniela Mercury, another well-known singer, at carnival in Salvador, the northeastern city whose week-



Laughing all the way to the bank: Banco Excel Econômico's Ezequiel Nasser and singer Daniela Mercury enjoy carnival

long party rivals the more notorious Rio de Janeiro.

This advertising blitz has a target. Government economic reforms, which have turned near-hyperinflation into single-digit inflation, have given a one-off boost to millions of lower income Brazilians. Mr Nasser estimates that 80m people are for the first time in a position to open a bank account. Even if the real figure is only half that, there is a vast suppressed demand for banking services.

"What better way of creating a strong bank than using a popular sport like football and the most popular team in São Paulo?" Mr Nasser asks.

He faces an uphill task,

though. Econômico's problems last year led to a fall in the number of current account holders from 700,000 to 120,000. Profits in 1996 were just R\$23m and the return on equity a meagre 4.4 per cent. Fifty branches have been closed and 3,700 of 9,500 staff made redundant. Mr Nasser says the new bank has 900,000 customers and is aiming for 3m-5m.

Excel Econômico is offering a range of incentives to attract customers, such as a 12-day grace period from interest on overdrafts. It is about to set up a joint venture with an international insurance company to sell insurance products in Brazil.

"Banks should be conservative about taking care of people's money," says Mr Nasser. "In all other matters they should be innovative and aggressive."

His eagerness to expand quickly is a reflection of the polarisation in the Brazilian banking industry. Banks have been deprived of the easy profits they made in conditions of high inflation, which has exposed the weakness of many - the old Econômico included. The result has been a flight of customers to stronger and larger private banks, such as Bradesco and Itau.

The Syrian-born Mr Nasser is a member of a family used to taking a gamble. In 1966 he started working for

his uncle, Mr Edmond Safra, when the latter set up Republic National Bank of New York. He moved to São Paulo and worked for another uncle, Joseph, at Banco Safra, now one of Brazil's largest banks. He left to set up Excel in 1990.

Once the subject of a central bank investigation, he does not lack detractors.

Some say his bank will struggle to attract the institutional and corporate funds needed to secure its finances. Others believe the bank's new customers could be poor credit risks. At the very least, it will be an entertaining experiment in populist banking.

Geoff Dyer

PepsiCo secures \$8m Argentine soccer deal

By Jimmy Burns

PepsiCo, the US soft drinks and snacks company, is limbering up for another potentially bruising cola war after clinching the first commercial contract to sponsor the Argentine football league championship.

Under a \$8m, two-year deal reached with the Argentine Football Association, PepsiCo will have exclusive sponsorship of the championship - to be called "Torneo Pepsi" - together with a package of TV and promotional rights during coverage of important matches.

Details of the deal emerged yesterday as PepsiCo separately announced a worldwide sponsorship deal with the Mexican international "superstar" goalkeeper, Jorge Campos.

The contract with one of the world's leading football nations gives PepsiCo a strategic foothold in its battle

with Coca Cola, which enjoys a greater market share in the region.

Coca Cola is the leading soft drinks supplier to several of the biggest football stadia in Argentina and currently sponsors the national team.

PepsiCo's negotiations in Argentina have been conducted through the local football authorities' commercial agent, the IMG group of US sports entrepreneur Mr Mark McCormack.

IMG has modelled the PepsiCo contract on a similar sponsorship deal that it helped to negotiate between Carling and the football authorities in England.

"I think that in Latin American terms this is a coup for Pepsi," Mr Paul Smith, a senior IMG executive, said yesterday.

The company has struggled in Argentina recently because of the financial difficulties of its local bottling company, Buenos Aires Embotelladora.

Last November, Pepsi moved to strengthen its Latin American operations by forming an alliance with Venezuela's largest food and drinks group, Empresas Polar.

That deal came three months after Pepsi's long-time bottler, the Ciscenas group, defected to Coca-Cola, threatening one of the few markets where Pepsi had the edge on its competitor.

The latest round of the cola war has been fuelled by the Argentine football authorities' determination to attract significant foreign sponsorship to the national game as a way of boosting revenue to spend on developing and keeping local talent.

The quality of the Argentine championship has been undermined in recent years because of the defection of many leading players to clubs in Europe.

However, it continues to command large television audiences, both locally and elsewhere in Latin America.

Avenor revises bid for Repap Enterprises

By Robert Gibbens in Montreal

Avenor, one of North America's leading forest products groups, yesterday bowed to pressure from shareholders by radically revising the bid it made last December for Repap Enterprises, a big timber, pulp and coated paper producer.

Avenor's original share-exchange bid was worth about C\$4.2bn (US\$2.34bn), including assumption of C\$2.5bn in Repap debt. The bid has now been reduced by almost C\$1bn, analysts initially estimated, making it more palatable to Avenor shareholders.

Avenor had offered one of its own shares for every 4.25 Repap shares, and will assume Repap debt and

issue C\$215m in new Avenor shares and convertible debentures. It planned to have off all the combined company's British Columbia assets into a new unit to be taken public or sold.

Mr Paul Gagne, president, said Avenor wanted to balance its heavy reliance on newsprint with higher-margin coated papers that are used in magazines and other publications.

But institutional shareholders complained that Avenor was assuming too much debt, making excessive dilution through the equity and debenture issues and over-valued Repap's British Columbia timber and pulp operations.

Yesterday, Avenor said it would:

- Amend the offer to one

share of Avenor for every eight of Repap.

- Exclude Repap's BC operations carrying C\$620m liabilities from the bid.

- Drop the C\$215m equity and debenture issues.

- Seek approval of shareholders on March 26, instead of March 12.

"These changes will allow Avenor to focus more rapidly on coated papers with higher margins and less volatile pricing," Mr Gagne said. "It will reduce the debt level and share dilution." In effect, he said, the banks would own Repap's BC operations.

Mr George Petty, founder and 23 per cent owner of Repap, has accepted the new terms, which value Repap shares at about C\$3 each against C\$5 originally.

Sodexho

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— FRANCE —

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— ITALY —Gardner Merchant
— AUSTRALIA —Sodexho
— BELGIUM —

Sodexho



"We take care of people.
That's why our alliances succeed".

Contract Food and Management Services - Remote Site Management - Service Vouchers - Leisure Services

An Alliance of Achievement

Highlights of Chairman Pierre Bellon's message to the Annual Meeting of Sodexho Shareholders on February 25, 1997.

1 - IN FINANCIAL 1995/96, SODEXHO MAINTAINED GROWTH IN SALES, REPORTED GOOD EARNINGS AND EXCEEDED OBJECTIVES FOR THE YEAR.

	At Aug. 31, 1996	% Growth
Consolidated sales (in millions of French francs)	24,961	36 %
Operating income (in millions of French francs)	1,124	50 %
Consolidated net income less minority interests (in millions of French francs)	685	—
Number of shares in issue	7,371,190	5 %
Earnings per share (in French francs)	92.92	129 %
Number of visits	13,512	—
Employees	141,118	—

(1) Of which 24 percent due to the consolidation of Gardner Merchant over 12 months
(2) Of which 23 percent due to the consolidation of Gardner Merchant over 12 months
(3) Of which 284 million in non-recurring items
(4) Including Partena, accounted for by the equity method.

II - OUTLOOK

For 1996/97, I indicated at the last Board meeting that, based on currently available data and assuming constant exchange rates, consolidated net income before exceptional items less minority interest should reach FRF 500,000,000. This would represent growth of 25 percent, with earnings per share gaining 23 percent. Today, I can confirm this forecast.

Looking out to the medium-term, prospects are favorable for all of our businesses. Remote Site Management services, including those provided in French overseas departments and possessions, should account for around seven percent of consolidated operating income in 1996/97.

Service Vouchers have taken an increasingly important role in our earnings stream in recent years. In 1996/97, the business will contribute around 15 percent of consolidated operating income.

Leisure Services include river cruises and catering for some of the world's most prestigious events. The river cruises business is expected to contribute three percent of consolidated operating income in 1996/97.

Penitentiary institutions are managed primarily in the United States, but also in France and Australia. Excluding CCA, which is not consolidated, this business should represent around one percent of consolidated 1996/97 operating income.

Food and Management Services are our largest business, which will account for around 90 percent of 1996/97 sales and 74 percent of operating income for the period. Our objective is to strengthen our position as global market leader.

III - PATHS TO PROGRESS

All our businesses enjoy strong potential for expansion, but to transform this potential into actual growth in sales and earnings, we are pursuing the paths to progress defined four years ago.

- Continuously improve client satisfaction through a commitment to quality and innovation.
- Develop our human capital, by:

- Encouraging the emergence of entrepreneurs among our employees.

- Focusing sharply on hiring, training and motivating our unit managers.
- Enabling employees to share in the Group's financial performance.
- Strengthening managerial efficiency, by:
- Enhancing and deepening strategic thinking.
- Using our size to lower the cost of purchased goods and services.
- Developing integrated management information systems.

IV - OUR GROWTH PHILOSOPHY

• The philosophy

Our corporate mission is clear: to satisfy our clients, to meet the expectations of our employees and shareholders, and to participate in the economic and social development of our host countries.

• Organic growth

To carry out this mission, we are committed to increasing our sales and earnings, because growth provides for greater job security, allows us to promote from within and creates more shareholder value. Our primary strategic focus is on internal growth, but in recent years we have supported this development with external acquisitions and alliances.

• External growth (alliances and acquisitions)

Our international alliances

On February 1, 1995, the alliance with Gardner Merchant made us the world's largest contract food services group. On January 2, 1996, the alliance with Partena, Sweden's leading management services company, strengthened our position in the Nordic countries. In February 1996, we acquired an equity interest in Cardapio, Brazil's third largest service voucher issuer, which we now manage. This gave us access to what is today the largest voucher market in the world.

Our alliance philosophy

Sodexho operates in service activities which, while not very capital intensive, are highly people-intensive. Indeed, our growth is driven almost entirely by the skills and dedication of individual men and women. While it is possible to purchase factories, machines, processes and technology, you cannot buy the commitment, hearts and minds of a company's people.

This is why the experience gained by the Group in its external growth over the past five years has taught us to respect the history, culture and personalities of the individuals that join our corporate community. It is this philosophy that has guided our recent alliances and that will continue to guide us in the alliances to come. To symbolize the reality and success of our international alliances, we have changed the name of the Sodexho SA holding company to Sodexho Alliance. As part of the changeover, we have also designed a new logo with five stars, representing our presence in the five main continents and the superior quality service provided by Sodexho's 141,000 employees around the world.

V - DIVIDEND

The dividend for 1995/96 has been set at FRF 25.00 per share, net of tax credit, representing income of FRF 39.00 per share including tax credit. It will be paid as of March 5, 1997. Total payout amounts to FRF 192 millions, a 24 percent increase from 1994/95. It corresponds to 48 percent of the consolidated net income before non-recurring items less minority interests reported for the year.

Our independence, our global reach, the quality of our teams, and our excellent financial position all provide us with important competitive advantages.

The Group's outlook is favorable and in the years to come, we foresee good growth in sales and earnings, as well as a steady increase in earnings per share.

Sodexho
— ALLIANCE —

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Phone: +33 1 30 85 74 74 - Fax: +33 1 30 85 50 05 - Internet: <http://www.sodexho.com>

COMPANIES AND FINANCE: EUROPE

Profits fall spurs Aga shake-up

By Hugh Carnegie
in Stockholm

Aga, the Swedish industrial gas supplier, yesterday reported a 17 per cent fall in profits before capital gains and announced extensive restructuring moves to cut costs and improve earnings.

Pre-tax profits rose from SKr2.7bn to SKr3.5bn (\$467m) thanks to a SKr1.8bn one-time gain from non-core asset sales.

But profits after regular financial items tumbled from SKr2.1bn to SKr1.76bn

because of weak markets in Europe and Latin America and negative currency swings.

Net earnings per share rose from SKr3.71 to SKr11.68 - but when capital gains were stripped off fell from SKr6.81 to SKr5.11.

The world's fifth largest industrial gas group had warned that profits would be down some 15 per cent and its most-traded B share closed unchanged yesterday at SKr107.50.

Mr Lennart Selander, who took over as chief executive

at the beginning of the year, was not satisfied with the 1996 result. "We continued to increase our market shares, but the sales trend was weak and could not compensate for a substantial rise in costs," he said.

Group sales fell from SKr13.3bn to SKr12.9bn.

The new chief executive said he was scrapping Aga's geographically-oriented structure, with research and development and marketing support centralised.

Instead, operations would be based in three core divi-

sions, supplying the manufacturing industry, the process industry and the health care industry respectively. Each would have responsibility for R&D and marketing in its own area.

Aga intends to cut staff at its 377-strong headquarters as part of the reorganisation. This would entail a charge of SKr100m in the first quarter of this year, but would yield savings of SKr260m in 1998, Mr Selander said.

He was aiming for a 15 per cent operating profit margin in 1999, compared with 13.2

per cent in 1996; and a return on equity of 15 per cent, with an annual increase in earnings per share.

Mr Selander said Aga's investment in new plant and equipment, which totalled SKr3.9bn last year, would enhance earnings in the longer term.

Sales grew 3 per cent last year, excluding currency effects. Mr Selander said an improvement this year would depend heavily on economic developments in Europe.

Spanish tobacco group falls 4%

By David White in Madrid

Tabacalera, Spain's state-owned tobacco group, suffered a 4 per cent fall in attributable net profit last year to Pta13.48bn (\$93.5m) as extra government taxes hit cigarette sales.

Operating profits plunged 30 per cent to Pta12.65bn, compared with Pta18.11bn the year before.

Cigarette sales by volume were 4.4 per cent down, with gains in upmarket brands but lower sales of middle-range products, and a sharp drop in cheaper dark-tobacco cigarettes.

The company said the tax rises, imposed in the summer to patch up a shortfall in government budget figures, had prevented the usual build-up of stocks at the end of the year.

However, it said there were reasonable prospects for a recovery in sales this year on the basis of the trend in the first two months.

Gross turnover for the group last year was up 5 per cent at Pta817.73. However, the net figure, after taxes and tobaccoists' commissions, showed a 1.6 per cent decline, to Pta329.08bn.

Corporación Mapfre, the listed holding unit of Spain's leading insurance group, said attributable net profit rose 6.5 per cent last year to Pta10.3bn after losses in its foreign operations.

Before taxes and minorities, consolidated profits were slightly down, from Pta17.9bn to Pta17.8bn, after a 25 per cent reduction in extraordinary gains to Pta3.9bn, according to preliminary figures.

Direct insurance operations abroad, mainly in Latin America, showed a Pta326m loss, after profits of Pta1.54bn in 1995. This contrasted sharply with a rise of almost 21 per cent in earnings from the group's main Spanish insurance operations, to Pta10.8bn.

EUROPEAN NEWS DIGEST

WestLB boosted by commissions

Westdeutsche Landesbank, Germany's biggest public sector bank, yesterday reported a provisional 5.1 per cent rise in operating profits before risk provisions, to DM1.802bn (\$1.07bn). The operating profit including risk provisions rose 7.6 per cent to DM1.688bn.

Mr Friedel Neuber, chairman, said favourable market conditions had boosted net commission and trading income in 1996. WestLB's foreign investments, notably its acquisition last year of Panmure Gordon, a UK brokerage house, had started to pay off and helped lift net commission income 22.8 per cent to DM709m. Trading income rose 58.5 per cent to DM455m. Helpful conditions in the money and capital markets lifted net interest income by 5.9 per cent to DM3.64bn. An unchanged dividend of 6 per cent of core capital will be paid.

Frederick Stüdemann, Frankfurt

Index to acquire Traub

Index, a privately owned German machine tool company, is to take over Traub, another large German tool maker. The two companies announced the deal yesterday. The combined company will have annual sales of about DM700m (\$415m), making it the fourth biggest maker of machine tools in Germany.

Traub has incurred losses for five consecutive years, with bank debts of up to DM250m, and announced last year that it was putting itself up for sale or seeking a business partner. The company has suffered from weak demand among European engineering companies, as well as high labour costs at its main manufacturing site near Stuttgart. Index, also based near Stuttgart, has been talking to its near neighbour for several weeks about the possibility of a deal.

Peter Marsh

Weaker franc lifts EMS

A weaker Swiss franc helped EMS Group, the Swiss speciality chemicals company which exports more than 90 per cent of output, to increase net income 12.2 per cent in 1996 to SFr229m (\$153.25). Total sales rose 2.3 per cent to SFr945m and return on equity rose to 24.1 per cent. Sales of performance polymers, which accounted for more than three-quarters of the total, rose 3.5 per cent; fine chemicals sales climbed 12.2 per cent to SFr137m. These two divisions increased their profits, but earnings at EMS-Inventa, an engineering company whose fortunes are tied to the textile industry, fell sharply.

Meanwhile, Pharma Vision, a SFr5.2bn Swiss investment fund chaired by Mr Christoph Blocher, chairman of EMS, has reshuffled its investment portfolio. Its 15.6 per cent stake in Roche bearer shares still accounts for 93.1 per cent of the total. However, a 0.5 per cent stake in Hoechst, the Swiss chemicals company, has dislodged the UK's Glaxo Wellcome as the second-biggest of the fund's four investments.

William Hall, Zurich

Viag arm resumes dividend

The German packaging concern Schmalbach-Lubeca, a majority-owned subsidiary of the diversified utility Viag, said yesterday it would resume payment of a DM5 a share dividend for 1996. It last paid a DM5 dividend for 1994. The move follows a return to net profits - of DM51m (\$30.2m) - in 1996. For 1997, Schmalbach-Lubeca expects group sales of about DM4bn, in line with 1996 revenues.

AP-DJ, Ratingen, Germany

Newtelco names chief executive

By William Hall in Zurich

Mr Hans Ivanovitch, 44, British Telecommunications' general manager for central Europe, has been appointed chief executive of Newtelco, the first main challenger to the monopoly of Swiss Telecom.

Newtelco, whose international partners are BT and Tele Danmark, hopes to capture 15 per cent of the SFr10bn (\$6.8bn) Swiss domestic market after Switzerland liberalises its telecommunications sector next year, according to Mr Alfred Mockett, managing director



(From left) Benedikt Welbel of SBB, Josef Egger of Newtelco and Hans Wuerzen of Tele Danmark yesterday

of BT's global communications division.

Newtelco, founded by Swiss Federal Railways

(SBB), Union Bank of Switzerland, and the Migros supermarket chain, aims to achieve turnover of SFr1bn

and employ 1,000 staff within five years. A total of SFr500m will be invested in the first phase, but much of

this will be contributions in kind. The company plans to float on the Swiss stock exchange eventually.

Block on chief adds to Bezeq troubles

By Judy Dempsey
in Jerusalem

Bezeq, Israel's state-owned telecommunications network, yesterday suffered another setback after an independent watchdog held up the appointment of Mr Yoram Turbowicz as managing director.

The committee, set up to examine possible conflicts of interest for civil servants, said Mr Turbowicz might have to wait a year before taking up his post.

"The decision could not have come at a worse time for Bezeq," said an analyst involved in the company's privatisation strategy.

He continued: "The company needs strong leadership. Its relations with the government are strained and it faces strong competition from international carriers who enter the Israeli market later this year."

Bezeq is also concerned that the hold-up threatens the success of a \$200m Yankee bond issue, scheduled

for May, and its chances of securing a credit rating from Standard & Poor's before the issue.

The delay also leaves unclear whether Bezeq will press ahead this year with an international share offering. Last month, the government said it would tap the buoyant domestic market instead.

In addition, the group is still in dispute with Cable and Wireless, the UK telecommunications company which holds a 10 per cent stake in Bezeq.

C&W wanted to acquire a further 10 per cent, but the government last month unexpectedly introduced legislation preventing any investor from acquiring stakes of more than 5 per cent without its approval.

Bezeq, one of Israel's most successful companies, has also clashed with the government over dividend policy.

On Friday, just as Bezeq was about to publish its 1996 results, the government said it opposed Bezeq's plan to take a 10 per cent bonus for

employees as a charge against its 1996 accounts.

The government insisted on a lower bonus, paid by the parent company. Bezeq says the government, which holds a 76 per cent stake, was protecting its dividend, which is set at 55 per cent of net income.

For the first nine months of last year, Bezeq revenues rose 3.8 per cent, from Shk5.76bn to Shk5.98bn (\$1.79bn). Net income rose 3.2 per cent, from Shk440m to Shk454m.

All of these securities having been sold, this advertisement appears as a matter of record only.

5,750,000 Shares

CIENA

CIENA Corporation

Common Stock
(par value \$0.01 per share)

1,150,000 Shares

This portion of the offering was offered outside the United States by the undersigned.

Goldman Sachs International

Alex. Brown & Sons
International

Wessels, Arnold & Henderson, L.L.C.

William K. Woodruff & Company
Incorporated

4,600,000 Shares

This portion of the offering was offered in the United States by the undersigned.

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Alex. Brown & Sons
Incorporated

Wessels, Arnold & Henderson, L.L.C.

William K. Woodruff & Company
Incorporated

Bear, Stearns & Co. Inc.

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Unterberg Harris

February 1997

GROUPE PARIBAS

Global growth

1996 results

12.1%

return on equity

The target of reaching return on equity of 10% by 1993 was reached in 1996.

FRF 10.7

billion

Increase in unrealised capital gains for the third successive year following asset disposals in 1996.

FRF 13

per share

An increased dividend will be recommended to the Annual General Meeting of Shareholders on April 25, 1997.

*US\$ 830.15 million
(us of exchange rate December 31, 1996)

Net income FRF 4.35 billion*

In 1996, Groupe Paribas earned total net income of FRF 5,062 million and net income excluding minority interests of FRF 4,350 million. After a difficult year in 1995, owing to the appropriation of exceptional provisions, 1996 marks a return to growth for the Bank as a whole.

All of the Group's core business activities saw their operating activities progress

- Banque Paribas earned net income excluding minority interests of FRF 1,824 million and pre-tax return on operating activities reached 13%. All of the Bank's activities - wholesale banking, capital markets activities and specialised financial services - saw their revenues increase.

- The contribution from Paribas Principal Investments rose substantially to FRF 3,197 million. For the past three years, this activity has made the largest contribution to the Group's results.

- All of the operating activities of Compagnie Bancaire have made progress.

This business, however, contributed a loss of FRF 583 million to the Group's results owing to the exceptional provisions retained to eliminate real-estate risks.

- Crédit du Nord also reports enhanced profitability. At the beginning of 1997, Paribas signed a draft agreement for the sale of Crédit du Nord to Société Générale which will take control of this subsidiary in 1997.

The commitments made at the beginning of 1996 have all been respected

- The goals for asset disposals have been achieved ahead of schedule. They chiefly concern Pollet, Audiotra, Axime and Banque Ottomane; they made it possible to realise capital gains worth more than FRF 3.1 billion.

Unrealised capital gains on equity holdings have increased. They stood at FRF 10.7 billion in December 1996 compared with FRF 8.8 billion in December 1995.

- The asset disposals completed by Compagnie de Navigation Mixte enabled Paribas to recoup cash equal to the value of its takeover investment.

- The financial resources of Banque Paribas have been reinforced by an increase in capital worth FRF 4 billion in order to consolidate its future development plans.

A return to growth, a sharply-focused strategy

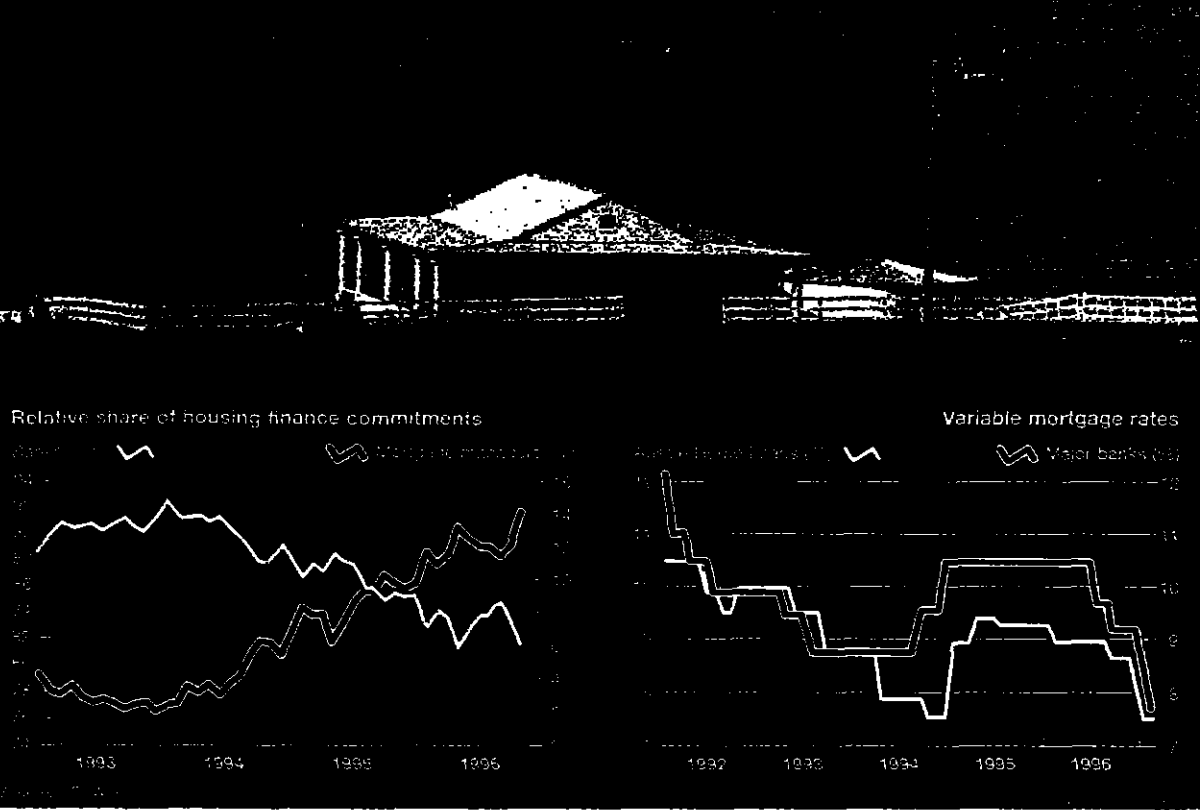
The various items for which exceptional provisions were retained in 1995 (namely, the Bank's real-estate holdings, Compagnie de Navigation Mixte and Crédit du Nord) no longer have a negative impact on the Bank's accounts.

The results obtained in 1996 illustrate the validity of the specialisation and selectivity strategy adopted by Groupe Paribas, focused on two core business activities: international wholesale banking and specialised financial services.

Test for Aussie Home Loans

The non-bank lender's struggle with the big Australian banks for the country's mortgage market has entered a new phase

Home, a loan



John Symond, managing director of Aussie Home Loans, likes to portray himself as the David of the Australian mortgage market who took on the Goliath of the big banks and won.

He sees himself as a man of the people who has brought cheap mortgages to the public in defiance of large banks, which he accuses of ripping off their customers. Now, however, the price war has entered a new phase and the banks are fighting back hard.

Following mortgage rate cuts by Commonwealth Bank last month, the big banks have brought their variable mortgage rate down to 7.5 per cent, where it matches closely the rate charged by Aussie Home Loans and other non-bank lenders who have made inroads into the mortgage market by leading cheap and securitising their portfolios.

Analysts believe the loss of their price advantage means non-bank lenders will struggle to maintain their market share of about 14 per cent of new lending.

"About half of the business written by non-bank lenders was refinancing of

existing mortgages," says Mr Patrick Eng, of Moody's Investor Services. "That share is shrinking."

But Mr Symond is defiant. There is little room for non-banks to cut their rates further in response to the banks' move - only about 25 basis points, he says. "But if we just did home loans and relied on price differentials, then we were always going to fail. That is why we are working on other products and using our economies of scale to market those products."

Mr Symond has been praised by Mr Peter Costello, Australia's federal government treasurer, for under-cutting banks on small business loans, and cultivates his image as a champion of the consumer. "It'll be a task for us to see how much loyalty we've got," he says.

The big banks, however, appear to be in for the long haul. Even though the margin on mortgage lending has halved to around 150 basis points over the past couple of years, most say the business is still profitable. Moreover, they are increasingly moving to end the practice of using mortgages to cross-

subsidise other services.

Mr Greg Conway, head of mortgage operations at National Australia Bank, says: "We own and control our own distribution channel, and we have also initiated strategies to source production through third channels."

A sign that the banks are happy with their return on mortgage portfolios is that, with the exception of Westpac, they have not moved into securitisation. Banks have excess capital, says Mr Eng, and mortgages are a good way of using it.

But all the large banks have now structured their mortgage portfolios to enable them to securitise if they wish. Securitisation means taking mortgages off the balance sheet and refinancing them through the bond market. The banks benefit from fee income for managing the portfolio without employing any capital on actual lending, so their overall returns rise.

Westpac admits that its move into securitisation reflects a desire to boost its return on capital, which at

14.6 per cent is lower than that of other banks.

Meanwhile, Aussie Home Loans' foray into small business loans secured against residential housing is pushing it into riskier territory, according to analysts.

Though Mr Symond says borrowers will be scrutinised and the loans fully insured against default, he risks damaging his reputation if small business failures lead to repossessions.

But the move drew attention to the good deals offered by Aussie Home Loans and sparked renewed interest in residential mortgages, says Mr Anthony Gill, managing director of Puma Management, the vehicle through which Aussie mortgages are refinanced.

Mr Gill says Puma still expects non-bank lenders to have a 40 per cent share of the mortgage market by the turn of the century.

That points to a bruising battle ahead. But even if the banks do fight Mr Symond off, there is little chance of a return to mortgage margins above 3 percentage points.

Peter Montagnon

ASIA-PACIFIC NEWS DIGEST

First Pacific advances 32%

First Pacific, the Hong Kong-based conglomerate controlled by the Salim group of Indonesia, reported a 32 per cent rise in operating profits last year to US\$448.5m. It said the telecoms division's contribution to group profit before exceptional rose 40 per cent to \$63.8m, with sales up 20 per cent at \$381m. The total number of subscribers rose 75 per cent to about 680,000.

The property division saw profits before exceptional climb 25 per cent to \$55.5m, on sales up 42 per cent to \$268m. The group reported an exceptional loss of \$15.2m caused by reorganisation costs and provisions for investments. "By any measure, 1996 was a year of significant achievement for us," said Mr Manuel Pangilinan, group managing director.

AFX-Asia, Hong Kong

MBO at Eureka Tiles

The management of Eureka Tiles, the Australian tile maker owned by BTR, the UK-based conglomerate, is launching a buy-out, a type of deal rarely used in Australia. The managers have backing from Catalyst, the management buy-out fund, and ANZ Bank. No figure was disclosed for the value of the deal, but it is thought to be worth tens of millions of Australian dollars. Eureka, which is based in Ballarat, Victoria, and was established in 1970, has annual sales in excess of A\$20m (US\$15.5m). Catalyst, which is based in Sydney and one of only a handful of management buy-out specialists in Australia, will hold a majority stake, with six Eureka executives also investing. There is also a tranche of subordinated loan funding, as well as senior debt. Mr Trevor Dixon, Eureka managing director, who proposed the deal to BTR, said Catalyst would probably seek an exit within the next six years.

Nicki Tait, Sydney

Losses cut at Harbour Casino

Sydney Harbour Casino, the gaming property which Mr Kerry Packer, the Australian businessman, is seeking to control, yesterday announced a A\$4.82m (US\$3.7m) loss after tax for the 18 months to end-December. This compares with a A\$62.3m loss in the 12 months to the end of June 1996. Sales revenue was A\$495.2m.

The result was struck after a A\$105.9m abnormal charge, compared with a A\$51.2m charge in the previous period, which reflects pre-opening expenses of the casino's new permanent facility, plus associated rental and interest costs. SHC is still operating from "temporary" premises while its A\$870m permanent facility, close to Sydney's harbour bridge, is completed. The company said this was on target to open in December. The Sydney casino got off to a bumpy start in 1996, which it attributed to competition in Australia's increasingly crowded casino market.

Last month, Mr Packer's listed Publishing and Broadcasting group announced it had agreed to acquire about 55m shares, or 10 per cent, of SHC from the US-based Showboat group, with options over a similar amount. It also said it was buying the management contract for 85 per cent of the property. The deal is worth A\$342m in total.

Nicki Tait

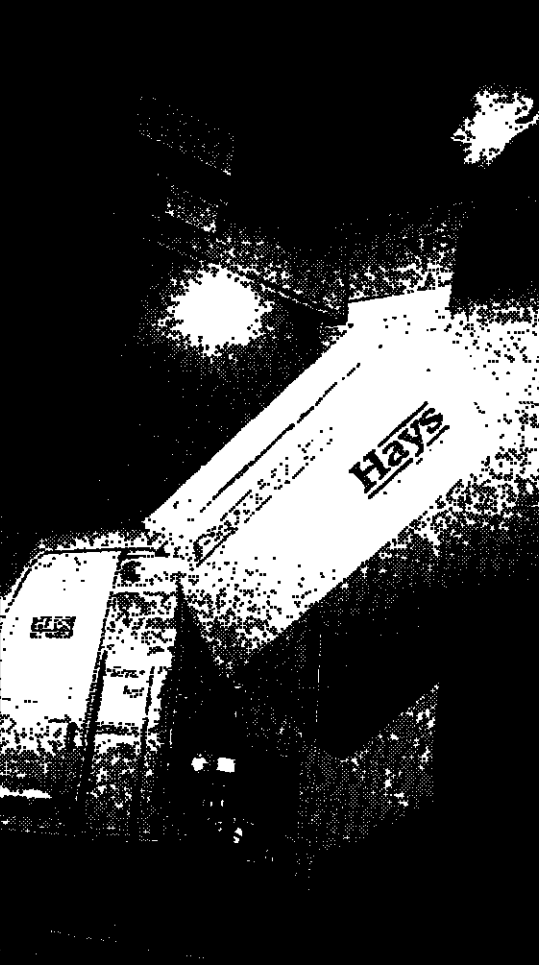
Crédit Lyonnais in fund deal

Prudential Corp, the UK insurer, said it had appointed Crédit Lyonnais Securities Asia to manage up to \$1bn for direct investments in China, India and Vietnam. Initial funding for the Prudential Invest Direct Asia (Pida) Fund will be \$150m and the investments will be sourced, structured and monitored by Crédit Lyonnais. Pida has been set up to invest in emerging markets where opportunities for portfolio investment are limited by the lack of a fully developed capital market.

Jeremy Grant, Hanoi

Hays

delivering results.



Results for the six months ended December 31 1996

The Group has enjoyed another six months of solid progress, with all core activities performing well.

Compared with the half year to the end of December 1995, we recorded an 18% growth in pre-tax profit and an 18% rise in earnings per share, both before exceptional items of £7.5 million. The interim dividend is increased by 15% to 3.0p per share.

DISTRIBUTION

Higher profits in logistics offset by reduced results in Chemicals.

Logistics improved both profits and margins despite currency factors and has continued to win new business. Chemical Distribution was affected by higher input costs in a buoyant market.

The acquisition of Daufenbach and the expansion of our Scottish & Newcastle contract to include the entire "off trade" distribution are both important developments.

Equally significant is the signing of a new 5 year logistics management contract with Kriegaum, a major German retailer.

COMMERCIAL

Operating profit up 33%, with particularly strong overseas growth.

The core activity continues to perform strongly both in the UK and overseas. The growth is a result of increased business from existing customers and expansion into new areas. ICS, acquired in the half year, is performing very well and in Hays Information Management there is continued geographical growth in response to customer demand.

PERSONNEL

Operating profit up 33%, productivity continuing to rise.

All our major businesses contributed to an excellent result, with growth in both permanent and temporary placements. Investment in information technology will continue to strengthen our productivity and competitive advantage.

PROSPECTS

We expect second half growth in Distribution as well as continued progress in Commercial and Personnel. The balance sheet remains strong, and we are well-placed to continue to maximise shareholder value and take advantage of opportunities as they arise.

FINANCIAL HIGHLIGHTS

(Unaudited) FOR THE 6 MONTHS ENDED 31 DECEMBER 1996

	1995	1996	% Change
Profit before tax*	£60.8m	£71.7m	+18%
Earnings per ordinary share*	10.3p	12.1p	+18%
Interim dividend per share	2.6p	3.0p	+15%

* Before exceptional items

For your copy of the interim statement for 1996, please write to David Beddley, Hays plc, Hays House, Millmead, Guildford, Surrey GU1 5HJ.

This advertisement has been approved by Deloitte & Touche, who are authorised to carry on inspection business by the Institute of Chartered Accountants in England and Wales.

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NOTICE IS HEREBY GIVEN that pursuant to the provisions of the Fiscal Agency Agreement dated as of March 16, 1993 the conversion price of the Debentures has been adjusted from U.S. \$26.00 to U.S. \$17.33 per Conversion Share of the Company's common stock \$0.1 par value. This adjustment has been made as a result of a 3 for 2 split of the Company's common stock, par value \$0.1 per share, effective through issuance of a 50% stock dividend, effective May 28, 1996.

THE MULTICARE COMPANIES, INC.
Dated: March 4, 1997

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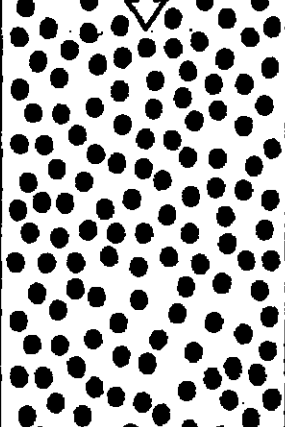
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Prices for selected securities for the purpose of the liquidity facility and to be repaid and to be repaid by the Fund

ISIN	Par	Price	Yield
000000	100.00	100.00	0.00%
000001	100.00	100.00	0.00%
000002	100.00	100.00	0.00%
000003	100.00	100.00	0.00%
000004	100.00	100.00	0.00%
000005	100.00	100.00	0.00%
000006	100.00	100.00	0.00%
000007	100.00	100.00	0.00%
000008	100.00	100.00	0.00%
000009	100.00	100.00	0.00%
000010	100.00	100.00	0.00%
000011	100.00	100.00	0.00%
000012	100.00	100.00	0.00%
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000048	100.00	100.00	0.00%
000049	100.00	100.00	0.00%
000050	100.00	100.00	0.00%

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COMPANIES AND FINANCE: EUROPE

Big groups face Pallas costs

By Andrew Jack in Paris

A number of leading French companies may be required to make good substantial debts incurred by Comptoir, a holding company, and Pallas Stern, its banking subsidiary, which were liquidated last Friday.

Elf and Schneider were among the businesses which in the past held direct or indirect stakes and board seats at Banque Pallas Stern, and may be involved in time-consuming litigation after a court decision at the end of last week.

They face being forced to share the costs of covering debts which run to more than FF80bn (\$14bn) at Comptoir, after an almost unpre-

cedented decision by the Paris commercial court to allow a bank to fail.

Judge Jean-Pierre Mattéi ruled unexpectedly that Pallas Stern and its parent company would be liquidated.

This was in spite of rival offers for its continued operation from Masf, the insurance mutual, and from a group of investors led by Mr Edouard Stern, a banker with Lazard in Paris.

Shareholders may be hurt because of a long-established practice in French banking law by which shareholders can be "invited" by the governor of the Bank of France to recapitalise a financial institution that is in danger of becoming insolvent.

The decision of the commercial court came after Pallas Stern had been placed in administration in summer 1995 in the wake of financial difficulties.

Shareholders - notably Elf - had refused to inject additional capital to enable the bank to continue operating.

Mr Philippe Jaffré, the chairman of Elf, had decided to refuse the "invitation" from the governor of the Bank of France to recapitalise.

His decision was a landmark in the recent evolution of French capitalism, with Elf arguing that it had no responsibility as an industrial group to support a bank, and the Bank of France unable to force it to

do so. The refusal has led to considerable debate about the possibility of modifying the country's banking laws as well as a change to France's depositor protection scheme, making it more generous and comprehensive under an agreement last week.

However, Elf and other shareholders may now be forced to make a contribution to shore up Comptoir's debts.

Mr Gérard Eskenazi, head of Pallas Stern, and a number of other former executives have been placed under formal investigation by French magistrates following the beginning of a judicial inquiry in February last year.

Renault at staging post on long route

The Belgian closure sent a signal to investors but profit is some way off, writes David Owen

Louis Schweitzer may be public enemy number one in Belgium. But there is little doubt that the Renault chairman's decision last week to announce the closure of the French car-maker's Belgian assembly plant will have made him more popular with institutional investors.

It appeared for much of last year that it would take the intervention of one of the company's heavy Mack trucks to lift its shares out of the depressed range into which they had fallen.

Yet they responded instantly to last week's developments - rising more than 20 per cent in three days to FF146.50.

But is this sudden burst of macho management on Mr Schweitzer's part - accompanied by a reconfiguration of the company's other European plants - enough to put it on a firmer footing, or will it be simply the first step in a more drastic reorganisation? And will the shares' new-found buoyancy still be in evidence on March 20, when the company is expected to unveil the full extent of 1996 losses, now estimated at about FF85bn (\$88bn)?

Already yesterday, the had given up some of last week's gains, closing down FF6.90, or 4.7 per cent, on the Paris stock market at FF140.

Analysts have warned that the closure of a plant accounting for less than 10 per cent of the company's passenger car output can by itself trigger a durable improvement.

They compare the FF85bn annual savings the group expects to secure as a result of the reorganisation with an expected 1996 operating loss of FF25bn in the car division alone.

"Does this mean Renault will make money in 1997? Of course not," says Mr Christopher Will, an analyst with Lehman Brothers. "The fundamental problem remains that three of Europe's six volume carmakers were last year in loss and there is no evidence that prices are going anywhere other than downwards."

Mr Sabine Blümel, analyst at IMI Sigence in London, says she would have preferred the reorganisation to have come three years ago. "They need to cut costs faster than they are having to cut prices."

The Belgian closure - and subsequent suggestions, not



Louis Schweitzer: decision may be turning-point

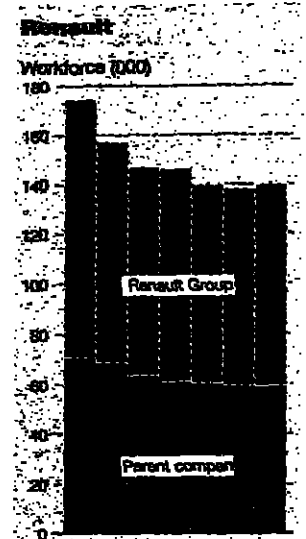
confirmed by the company, that this year's social plan in France will contain proposals for 3,000 job cuts, up from 1,000 in 1996 - follow a period when the labour force has stabilised at just below 140,000, after sharp reductions in the late 1980s and early 1990s.

Output in 1995, meanwhile, was almost identical to 1991's at 1.84m cars, trucks and commercial vehicles.

Two other factors help to put the performance of Renault - and, to a lesser degree, of rival Peugeot-Citroën, where first-half profits were 50 per cent down from year-ago levels - in context.

First, government purchase incentives meant 1996 was a very strong year for new car registrations in France, where the two domestic groups retain well over 50 per cent of the market. This year, by contrast, analysts expect a fall in registrations of 10 per cent. January and February figures were down 33 per cent and 25 per cent, respectively. And, analysts add, there is little to suggest an improvement in prices in prospect. Market conditions in Renault's home market, in other words, look set if anything to get tougher.

Second, 1996 was also a good year for the big French car parts makers - despite the problems of their customers. Profits at Renault Faure, the car seat maker, tripled; at Valeo, they were up a fifth, with operating income ahead 36 per cent. Even Michelin, Europe's biggest tyre maker, is expected to produce profits about



level with 1995, despite provisions for job cuts.

Analysts say this discrepancy between the performance of French carmakers and parts suppliers is principally because the latter have internationalised more successfully. "Michelin and Valeo are global companies; Renault and Peugeot are not," says Mr Will. "Valeo was the one component company which decided early on there was an opportunity if they became both pan-European and global. Valeo's growth is because they are able to undercut the domestic competition everywhere."

It seems likely, then, that last week's announcement is the start of a long haul for Renault in which further productivity improvements - and perhaps radical surgery - will be needed en route to a possible return to profit in 1998.

February 1997 may, meanwhile, go down as a turning-point in one other important respect particularly in view of the government's rejection, a day before the Belgian plant was closed, of calls from Renault and Peugeot to help fund plans to cut thousands of jobs and reduce the average age of employees through early retirement.

It may be seen as the month when it became clear that Renault - in which the French state retains a 47 per cent stake after selling its majority interest last year - must in future be managed much like other private companies. That certainly seemed to be the conclusion of the unions. "Renault has chosen the stock market over jobs," said the pro-Communist CGT.

Santander proposes 3-for-1 share split

By Tom Burns in Madrid

Banco Santander, Spain's leading banking group, said yesterday it planned to reduce the nominal value of its shares from Ptas750 to Ptas250, tripling the number that it trades on Madrid's Bolsa to 479m. The move is designed to favour small investors.

The 3-for-1 share split, which will be proposed by chairman Mr Emilio Botín at Santander's annual general meeting on March 23, is the first undertaken by a big domestic bank. The strategy could be imitated by rival institution Banco Bilbao Vizcaya.

The split does not vary Santander's subscribed capital, which remains unchanged at Ptas13.5bn. But it does reflect concern at the bank over the high trading price of its shares and an eagerness to take advantage of a strong appetite among small investors for Bolsa equity.

Santander's share price rose 54.2 per cent between the start of September and the end of February, and is now trading at around Ptas7,000. Analysts say the share could encounter a psychological resistance level at Ptas10,000 which might slow a further climb in value.

BBV chairman Mr Emilio Botín told the bank's shareholders last month that he would consider a two-for-one share split, halving the Ptas575 nominal value, if the bank's stock rose to Ptas10,000. BBV shares, which have also risen steeply over the past six months, are trading at around Ptas4,500.

By reducing the trading value of its stock to below Ptas3,500, Santander is hoping to take advantage of the Bolsa rally by making its equity appealing to small investors.

Growing domestic interest in equity investments was revealed by the privatisation of Telefonía last month. The retail tranche of the telecoms issue was more than nine times oversubscribed and Telefonía doubled its number of shareholders to more than 1.5m.

Santander is one of the Bolsa's blue-chip stocks and its dividends have grown at a compound average rate of 15.56 per cent over the past 10 years.

Analysts said the effect of the split on the value of the bank's shares was likely to be neutral over the short term.

Bolsa to try on Domínguez

By Tom Burns

Twenty years ago, Mr Adolfo Domínguez revolutionised Spain's conservative dress sense. Now he may be about to change traditional business on Madrid's stock exchange, through a placement of 70 per cent of his design and retail company.

The subscription period opens today for the initial public offering of Adolfo Domínguez SA, which controls 72 stores, including outlets in London and Paris. Analysts say it will fully test the domestic market's capacity to absorb issues in new sectors.

Bracketed with Jlli Sanders in the US and Giorgio Armani in Italy, Mr Domínguez has come a long way since his early collections of casual menswear proclaimed "the wrinkle is beautiful".

For those who associate the Spanish designer with a

genius for subtle fabrics, soft colours and simple lines, it comes as a surprise to hear him talk like a hardened merchant banker.

When his two brothers and his sister decided to disinvest from the family business, he persuaded them to reject overtures from Luis Vuitton, the French drinks and luxury goods group, and to place their stock on the market, so that he could continue to control the company with his 30 per cent stake.

Mr Domínguez considers Madrid's market too narrow, arguing that it should fire investor expectations by reflecting changed consumer trends. His perceptions are backed by Banco Central Hispano, the big domestic bank which will co-ordinate the issue, and by Schroders and Robert Fleming of the UK, which will help place 40 per cent of the offer with international institutions.

"There are not enough

stocks traded on the Bolsa," Mr Domínguez says. "What we have got is a lot of families with savings who are beginning to think about equity investments and there are numerous family companies considering a market listing."

The Adolfo Domínguez offering follows a trail blazed by Sol Meliá, the Mallorca-based hotel group which raised \$275m last June when it put 40 per cent of its family-owned equity on the Bolsa; and by TelePisa, a fast food company that realised \$81m when it floated 45 per cent of its shares in November.

With an estimated market value of between Ptas22bn and Ptas26bn (\$151m), Adolfo Domínguez could add impetus to this trend for domestic issues.

Sol Meliá, which was the first hotel and leisure group to be listed on the Bolsa, has had its market capitalisation

increase from Ptas4bn to Ptas13.5bn, while TelePisa's capitalisation has climbed from Ptas4.5bn to about Ptas7bn.

With Mr Domínguez's fashion group, investors are being invited to buy into an even more novel, and an arguably riskier, sector.

"The first question I'm asked [by investors] is what happens to the company if I should suddenly die," says Mr Domínguez. "I tell them that [French designer Coco] Chanel is dead."

Mr Domínguez is selling design teams that produce high-quality fashion and a vertical retailing business that ensures medium prices by eliminating intermediaries. His company reported a net profit of Ptas1.2bn last year on sales of Ptas7.5bn. Analysts estimate annual cumulative growth in earnings of 33 per cent, and in sales of 38 per cent over the next three years.

TECHNOLOGY



As policymakers seek ways to improve air quality and limit the output of greenhouse gases, compressed natural gas (CNG) is gaining increasing support as an alternative to petrol and diesel.

There are more than 1m CNG vehicles operating worldwide – an increase of about 50 per cent over the past five years. Argentina has the largest fleet, and vehicle numbers there have risen by more than 200 per cent since 1992, to 400,000. Italy has 300,000 vehicles using CNG, Russia more than 200,000 and New Zealand 45,000. The US, a late starter, has about 55,000.

Vehicles are either purpose-built to run on CNG or conversions – petrol or diesel engines can be adapted but the conversion of petrol engines is more straightforward. The essential changes required are the addition of one or more pressurised tanks for CNG storage, additional fuel lines for the gaseous fuel and a gaseous fuel mixer in the engine.

Tom Gorman, general manager of British Gas's natural gas vehicle (NGV) division, says there are still some technical drawbacks in using CNG, but none of them are "show-stoppers".

The main disadvantage of CNG, compared with petrol, is that fuel tanks must be larger and stronger to contain the fuel safely, compressed to 3,000psi. Consequently, there is a weight penalty and the vehicle's range is typically 20 per cent below that of a conventional vehicle.

On the other hand, gas compression and refuelling technology is well-established and filling up with CNG takes only a little longer than petrol. Also, the CNG industry has a good safety record: the gas rises in an accident rather than "pooling" like gasoline, diesel or LPG, and the strength of the reinforced fuel tanks increases the overall robustness of vehicles.

CNG's critical advantage over gasoline and diesel may be the potential it offers for improving vehicle emissions. Recent tests by Rover showed that NGVs can reduce photochemical smog by up to 81 per cent, producing less carbon monoxide, hydrocarbons and nitrous oxides.

Air toxins like benzene – which is a carcinogen – can be virtually eliminated along with most particulates and acid-forming sulphur oxides.

Although CNG vehicles allow

No stopping the CNG show

For larger vehicles operating in polluted cities, this alternative fuel is gaining ground, writes Neil Wallis



Fuel for thought: Hampshire's gas powered buses have been popular despite a few teething problems

some unburnt methane to escape from the exhaust pipe, their contribution to global warming is still reckoned to be less than traditional vehicles because other greenhouse gas emissions are so much lower. Methane catalysts, which are being developed, are expected to cut emissions further.

Ian Phillips, managing director of Southampton Citybus, which has been running 16 Dennis Dart buses on CNG since June last year, is satisfied with the vehicles' performance so far. "We've had a few teething prob-

lems but, on the whole, we're very pleased. The buses are popular with the drivers and the engines are quieter."

The Southampton project is one of the largest under way in Britain, supported by grants from the European Commission and the Department of Transport. Ten of the vehicles were purpose-built to run on CNG.

Increasing demand is encouraging motor manufacturers to market dedicated CNG vehicles and many now have one or more models commercially available, from passenger cars to heavy

trucks and buses. Chrysler, Volvo, Mercedes, BMW, Vauxhall and Iveco-Ford are among companies active in the field.

Honda recently launched a CNG version of the Civic which it claims is "the cleanest internal combustion engine on the planet", designed to meet California's Ultra Low Emission Vehicle (ULEV) standard.

Vehicles designed specifically for CNG tend to offer performance and emissions advantages compared with petrol and diesel conversions. While conversion is often cheaper, it can prove to be

LPG is best of the rest

Other gases or products based on them are also being used or tested as alternative fuels for vehicles. The most well known, liquefied petroleum gas (LPG), is used by more than 1m vehicles worldwide, many of them in the Netherlands.

LPG consists mainly of propane and butane and is a by-product from the refining of crude oil and natural gas. Its main advantage is its high energy content and its cost relative to petrol and diesel.

LPG can also be stored in smaller, lighter tanks than CNG, but it provides fewer air-quality benefits and is delivered by tanker rather than by pipeline.

A less established alternative is liquefied natural gas. There are about 1,000 LNG vehicles in operation worldwide, mainly in the US.

According to Jon Ostle, distribution engineering manager for BOC Gases, LNG can be stored in smaller, vacuum-insulated fuel tanks to maintain the low temperatures required. But LNG can suffer some cost and handling problems compared with the more established alternatives.

Adsorbed natural gas (ANG) has been used as a fuel in a few prototype vehicles. The gas is so-called because it is attracted to a porous solid, such as coconut-based carbon, which enables more efficient and flexible storage.

a false economy. New Zealand, for example, had a booming NGV industry in the early 1980s, and CNG reached nearly 10 per cent of total transport fuel demand.

Stephen Elder, manager of the Fuels Research Unit at Auckland University, says poor vehicle conversions were partly to blame for the industry's subsequent decline.

Government attitudes can also influence the growth, or otherwise, of NGV use. In the UK, government policy is clearly moving in favour of CNG, says Fred Parker, executive director of the Natural Gas Vehicle Association.

There have been cuts in excise duty on gaseous fuels of 15 per cent and 55 per cent in the past two budgets while the government remains committed to increasing the duty on gasoline and diesel by 5 per cent a year in real terms.

The latest budget concession helped encourage BOC Distribution Services to order 10 more NGV vehicles last December, making a total fleet of 12.

The new vehicles, being built by ERF with Vauxhall Perkins engines, will be part of a second distribution system for Marks and Spencer's central London stores, helping to reduce emission levels.

However, tax incentives are not yet enough on their own to make CNG vehicles commercially viable. Prices for dedicated NGVs are higher than for equivalent petrol vehicles, with the premium ranging from more than £2,500 for a car, to about £20,000 for a bus. Higher NGV production runs may have this disparity, but there will continue to be a price premium. Phillips reckons the differential would have to come down to about £10,000 for Southampton Citybus to find NGVs viable at current tax rates.

The BOC contract was partly funded by the Energy Saving Trust, an independent company jointly owned by the UK government and energy suppliers, which has £8.3m of government money to help remove barriers to a sustainable market for alternative fuel vehicles.

Jonathan Murray, the trust's transport programme manager, says that the near-term prospects for CNG look favourable. "There are similarities between CNG and hydrogen in terms of storage requirements. Encouraging CNG should facilitate a longer-term move to the ideal clean fuel, which is hydrogen," he adds.

This is the second in a monthly series on new or alternative fuels. The first article appeared on February 4.

Print fabrics join the jet set

Japanese followers of fashion can now buy the latest thing in sartorial elegance fabrics printed with the same technology used by millions of computer printers worldwide. Canon, the electronics company, and Kanebo, the clothing company, have developed the bubble jet textile printing system, which the companies say can be faster and more cost effective than traditional methods of fabric printing.

Bubble jet printers use an array of ink nozzles, each of which is about half the diameter of a human hair. The nozzles are heated and this causes the ink to form a bubble, which expands and shoots out of the end of the nozzle 6,000 times a second.

Canon launched the first bubble jet printer in 1981, and the company estimates that printers using bubble jet or similar technologies accounted for more than 70 per cent of the 42m computer printers sold worldwide in 1996.

However, despite the success of its bubble jet printers, Canon is keen to use it in other areas, including compact disc labelling, the textile industry and consumer electronics products. One idea is to build television sets with built-in bubble jet devices for printing information pulled from the Internet.

In 1990, Canon and Kanebo formed a technical alliance to develop a bubble jet textile printer. By 1993, the basic technology had been developed, although Kanebo only recently began test-marketing the first products in selected Japanese stores. Canon estimates that \$40m to \$50m has been invested in the system.

The bubble jet textile printer is a large machine which weighs 7,000kg and stands 1.7m high. The printer has 16 printheads, arranged in two groups to permit two-way printing. The printheads house an array of 1,360 nozzles, which are fed by up to eight ink stations. The machine has a print speed of 1m a minute and can print fabric up to 1.65m wide. Each textile printer costs

about \$1m (\$800,000), and Canon says it expects to sell 50 to 100 of them in the next two years.

The system can be used with a variety of materials, including cotton, silk, nylon, polyester and leather. Kanebo is marketing bubble-jet printed scarves and ties, and there are also plans to develop suits, shirts, bags and sportswear using the technology. The Japanese designer Issey Miyake has produced leather coats printed by the bubble jet system.

Takeshi Saito, director of Canon's bubble jet product group, says the new system offers a number of advantages over traditional print systems. "Bubble jet printing offers higher quality than rotary screen printing, and is faster than flat screen printing," Saito adds that the bubble jet system is ideal for small production runs.

Producing a fabric, from design to sample printing, can take up to six weeks using the screen printing process, but the bubble jet system can cut this to three days.

This is because the bubble jet system is computer-controlled. Designs can be created on a PC or fed in via a scanner or CD-Rom, edited, manipulated (the system offers more than 16m colours), and then printed. Canon says bubble jet printing is also more environmentally friendly because there is no waste water or ink.

But Saito admits that the system does have some drawbacks. Bubble jet textile printing cannot yet produce vivid colours and, in some cases, there is a risk of the ink rubbing off the fabric.

Although the system is cheaper than traditional systems in short runs of up to 50m, it is more expensive when used for mass production: "We aim to reduce costs by at least a half," says Saito. Despite these problems, Canon says textile companies in Germany, Switzerland and the UK have shown an interest in the process.

George Cole

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CITY INDEX

Rupert joins board of GFSA

Johann Rupert, chairman of Rembrandt, the South African tobacco, liquor, mining and industrial group controlled by his family, has joined the board of Gold Fields of South Africa.

A favourite stock among speculators predicting changes in the capital structure of the troubled mining house, Gold Fields is effectively controlled by Rembrandt, which owns 40 per cent of its parent company, GFSA Holdings.

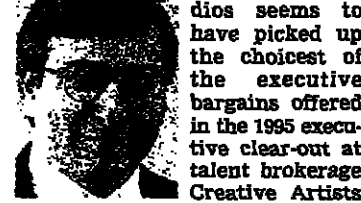
But until now the management have been insulated from calls to restructure the group by a labyrinthine capital structure, which vests another 40 per cent of GFSA Holdings in a management-controlled company.

The arrangement dates from 1988, and was sanctioned by the Rupert family, who say it protected Gold Fields against the prospect of a hostile takeover by Anglo American. But as Gold Fields has wrestled with labour unrest and productivity problems in recent years, Rupert has spoken out in favour of reforms.

Rupert says he will not give up control of Gold Fields, and that he does not anticipate a bold unbundling of its diverse subsidiaries. But despite these claims, speculation has propelled Gold Fields shares to

the highest prospective price multiple in the sector. His decision to join the board will do nothing to dampen expectations.
Mark Ashurst, Johannesburg

Universal goes global with Climan



Universal Studios seems to have picked up the choice of the executive bargains offered in the 1995 executive clear-out at talent brokerage Creative Artists Agency.

While Walt Disney is still eating dust in the wake of the whirlwind visit of CAA founder Michael Ovitz, one of his former colleagues is enjoying a clear run through the upper reaches of Universal management.

Sanford Climan (above), who joined the Seagram-owned group (then known as MCA) in late 1995, has been put in charge of all international business development. In an industry where "going global" is suddenly fashionable, this is no mean move for a man previously known as Kevin Costner's handler.

But as Ron Meyer, Universal's chief operating officer, knows,

there is more to Climan than managing star's egos. The two worked together at CAA for almost 10 years before the managerial departures.

In the past year Climan has been in the thick of developing international television channel services and tying up film and TV programming deals with Germany's Kirchgruppe, CLF/Ufa's RTL 7 service in Poland, and Canal+ in France.

Last November, he hired as his right-hand man Brian McGrath, former chief executive of ISL Marketing, ISL is the sports event specialist which packaged and branded the 1996 European soccer championships in Britain, and which has been credited with saving the International Olympics Committee from the financial dumps.

Christopher Parkes, Los Angeles

Chief exec for Deutsche BA

Carl Michel, a 33-year-old former management consultant, is to become chief executive of Deutsche BA, British Airways' German subsidiary.

Michel, who holds both British and Austrian citizenship, will take over on April 1, the day the European Union aviation market is opened to full competition. From then, EU airlines will be free to

operate domestic services in other member states. Deutsche BA is already competing with Lufthansa, the national carrier, in the German domestic market.

Michel was educated at Oxford and Harvard, where he received an MBA. He then spent eight years at McKinsey before joining Deutsche BA in 1995 as head of business development. He succeeds Wolfgang Grund, who becomes chairman of the Deutsche BA supervisory board.

Michael Skapinker, London

Schmidheiny retires from ABB's board

Stephan Schmidheiny's decision to retire from the board of ABB, the international engineering conglomerate, should make life easier for him, if not for ABB. Schmidheiny, 49, a Swiss billionaire and ABB's biggest Swiss shareholder, wants to spend more time on his mission to raise the environmental awareness of big business.

His departure comes as ABB is facing mounting environmental criticism for its involvement in the construction of Malaysia's Bakun dam, the biggest steel in its history. Schmidheiny, who has been an ABB director for 16 years, resigned last year from the board of UBS, Switzerland's biggest bank, but remains a director of Nestlé.

Schmidheiny's office said that his resignation was not connected with the row over the Bakun dam and still thought that "ABB was a very good company".

Nevertheless, his departure will make life more difficult for Gern Lindahl, who has just taken on as ABB's chief executive and has been closely associated with winning the Bakun contract. Schmidheiny, a prominent member of ABB's environmental advisory board, would have preferred to see Malaysia use ABB's expertise to cut energy losses in electricity transmission rather than assist in the building of more generating capacity.

Tessa Tennant, head of ethics investment at Britain's National Provident Institution, says the Schmidheiny, who invented the idea of Eco-efficiency, had made "an incredible contribution to business thinking on the environment." NPI does not hold any ABB shares in its ethical funds. Schmidheiny will be replaced on the ABB board by Edwin Somers, 64, the chief executive of ABB Swiss operation, now retiring. Gerhard Cromme, chief executive of Fried. Krupp AG Hoesch-Krupp, German steel and heavy engineering company, replaces Helm Maucher, 70, Nestlé's German-born chairman, who has reached ABB statutory retirement age. William Hall, Zurich

ON THE MOVE

William Anderson, chief financial officer at Bell Cablemedia in London, is returning to Canada to take up the post of senior vice-president finance of BCE, the parent company and Canada's biggest telecommunications group.
Ivan Fallon has been appointed chief executive of INDEPENDENT NEWSPAPER HOLDINGS LTD, in South Africa. He is currently deputy chief executive and editorial director.
Jim Woods, who recently retired as chairman of Baker Hughes, has been appointed to the board of UNION TEXAS PETROLEUM HOLDINGS. He replaces Saul Fox, of Kohlberg Kravis Roberts & Co, who resigned in January.
DATAWORKS CORPORATION has appointed Robert Byrland to the newly created position of chief operating officer; he was previously vice-president and general manager of DataWorks' CDC

division.
SBC WARBURG in the US has appointed Carlos Medeiros as senior Latin American economist. He joins after nine years at the International Monetary Fund, where he was most recently senior economist for Brazil.
Executive vice-president Lars Ohlsson-Lefjell will resign his position as chief financial officer of SCANIA, at the annual general meeting on April 24. Bertil Persson, currently senior vice-president of finance, will become finance director. Peter Harward has been appointed senior vice-president, accounting and corporate control.
Frederick Mancheski has retired as chairman and chief executive of ECHLIN, the US vehicle parts company. A new chief executive officer is expected to be chosen soon but until then Trevor Jones has been elected chairman and interim chief executive.
Larry Pavey has been appointed president of the company's North American

aftermarket operations.
Allen Huie has been appointed by SALOMON BROTHERS ASIA PACIFIC as managing director and head of Greater China Investment Banking.
COMPAQ COMPUTER has appointed Kunitaki Fujimoto president of its Japanese unit. He was formerly managing director of Andersen Consulting, the computer services and integration company, in Tokyo. Fujimoto reports to Dick Snyder, general manager of worldwide sales for Compaq. He succeeds Masaru Murai, who becomes chairman of the unit.
ULSTER BANK, the Irish subsidiary of National Westminster Bank, has appointed Martin Wilson as deputy group chief executive. He will take over as chief executive when the incumbent, Ronnie Kells, retires in 1998.
Dutch electronics company PHILIPS will appoint Louis Schweitzer as a member of the supervisory board, effective March 21.
Graham Mackay has been appointed group managing director of SOUTH AFRICAN BREWERIES; former African National Congress Secretary-General Cyril Ramaphosa becomes a non-executive director.
Rudi Schwab has been appointed the new head of AIRBALYTIC, the national Latvian airline. He joins from Scandinavian Airlines System and takes over from Kjell Fredholm, who was also a SAS executive.
TAISEI Corporation has appointed executive vice-president Osamu Hirashima as president, replacing Hyozo Yamamoto, who will become chairman, with effect from April 1.
Robert Brust has become chief financial officer and senior vice-president of UNISYS CORP. He was previously vice-president of General Electric's plastics unit.
JOHN GOVETT & CO, part of the asset management division of Allied Irish Banks, has appointed Keith Mitchell as managing director of its US operations. He was most

recently chief executive of Delaware Distributors, a subsidiary of Delaware Management Holdings.
Karl-Heinz Köpfe has been appointed the new managing director of LUFTHANSA Cityline. He takes over from Karl-Friedrich Rausch, who is moving to the management board of the Lufthansa Passenger Airline with responsibility for products and services.
Robert Best, senior vice-president, regulated businesses, at Consolidated Natural Gas, is leaving to become chairman, president and chief executive of ATMOS ENERGY CORP. He succeeds Charles Vaughan, who is retiring but will continue as an Atmos director.
Eric Topol has joined the board of directors of RHONE-POULENC RORER.
Dominique Bazy has been appointed by ALLIANZ AG HOLDING as chairman of its French companies. He was formerly senior executive vice-president of Axa-UAP. Prior to the merger of AXA

International appointments

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INTERNATIONAL CAPITAL MARKETS

European high-yielders outperform

GOVERNMENT BONDS

By Samer Iskandar
in London and John Authers
in New York

Europe's high-yielding bond markets recovered part of Friday's losses. Italian BTs and Spanish bonds outperformed German bunds, while US Treasury prices fell as a result of a shift in sentiment, with traders increasingly convinced the Federal Reserve might soon raise interest rates.

In London, June futures on 10-year BTs rose 0.55 to 127.30, as the lira recovered to just under L1,000 against the D-Mark, from a low of L1,004 on Friday.

Traders said Friday's 2.3 percentage point fall was overdue and the correction was healthy. However, they warned that BTs' recovery was fragile and sentiment remained weak.

In the cash bond market, 10-year benchmark BTs closed 0.20 higher, while German bunds fell by the same amount. As a result, BTs' 10-year yield spread over bunds tightened by 10 basis points to 194 points.

"There is a widespread misunderstanding about the Maastricht treaty's criteria for qualifying for Emu," said Prof Hannah Scobie, director of the European Economic and Financial Centre, an independent research centre

in London. "The wording of the treaty allows for some flexibility."

According to Prof Scobie, Italy has achieved the best results in Europe in containing its budget deficit, which is expected to fall to 3.8 per cent of GDP this year, from an estimated 6.5 per cent in 1996. While the financial markets seem to believe 3.8 per cent is too high for Emu participation, Prof Scobie said it conformed with the treaty's wording.

"The markets take it for granted that the 60 per cent of GDP debt criterion will be interpreted flexibly, but attribute a rigidity to the deficit criterion that it does not have," Prof Scobie

added. "In fact, the deficit criterion is more flexible than the debt ratio."

In Barcelona, March futures on Spanish bonds rose 0.45 to settle at 112.12, while in the cash market the 10-year spread of bonds over bunds tightened by four basis points to 141 points. However, traders warned that the Spanish market would remain vulnerable to Emu jitters.

Yields on US Treasury bonds rose heavily in morning trading as the conviction spread among dealers that the Federal Reserve is likely to tighten monetary policy within weeks.

Prices fell for all maturities, with the benchmark

30-year long bond dropping 1/8 to 97 1/8, to yield as much as 6.945 per cent by midday. It also saw a strong increase in its price index, generally seen as a leading indicator of inflation.

This did not help sentiment in the bond market, where traders were looking for signs that heat was being removed from the economy. Before the market opened, they had received data showing personal income and expenditures had increased slightly more than expected in January.

Prices picked up after the release of the data, with some dealers reporting that the market had been oversold, only to fall further as the morning ended.

suggested that the manufacturing sector was expanding. It also saw a strong increase in its price index, generally seen as a leading indicator of inflation.

Prices picked up after the release of the data, with some dealers reporting that the market had been oversold, only to fall further as the morning ended.

Debut from Oman oversubscribed

INTERNATIONAL BONDS

By Conner Middelmann

Shrugging off a further slide in emerging-market debt prices, the Sultanate of Oman made a successful debut in the international bond market yesterday with \$225m of five-year paper.

Even after the offering was increased from the \$150m initially planned, it was more than twice subscribed, lead manager J.P. Morgan said. Nearly half was placed in Europe, 23 per cent went to US accounts, 17 per cent to Asia and 13 per cent to the Middle East, a syndicate official said.

"Despite the turbulence in US Treasuries and the emerging markets, we lost next to no orders," he said. "The issue represents a rare opportunity as it is the first investment grade Arab eurobond."

The bonds were priced at a spread of 73 basis points over Treasuries, which narrowed slightly to 72 points. Another benchmark deal surfaced in the D-Mark market, where Kreditanstalt für Wiederaufbau, the German government agency, issued DM2bn of 10-year bonds.

The deal received a warm reception from institutional investors attracted by the perceived safety of D-Mark assets amid continued uncertainty over European monetary union. Moreover, many investors were shifting back to top-quality assets after the recent slide in high-yielding bond prices, both in Europe and the emerging markets, a syndicate manager said.

Although it is a domestic issue, the bonds, which are zero risk-weighted, were targeted at a wide international audience. Indeed, it is the first KfW domestic jumbo to

have an international house, Merrill Lynch, acting as joint lead with a German bank, Dresdner-Kleinwort Benson. More than one-quarter of the deal went to Asian investors, with the remainder placed in France, the Netherlands, the Benelux countries, the UK and Italy.

Despite nervousness in the US Treasuries market ahead of Friday's jobs data, two jumbo issues are expected to hit the market today. The Inter-American Development Bank is due to launch \$1bn of 10-year global bonds via CSFB and Morgan Stanley, at a rumoured spread of 17 to 18 basis points over Treasuries. Cades, the agency set up a year ago by the French government to pay off the accumulated debt of the country's social security system, is set to issue \$1bn of five-year bonds expected to be priced at around 5 basis

New international bond issues

Issuer	Amount	Coupon	Price	Maturity	Yield	Spread	Bookrunner
US DOLLAR							
1. Bank	400	5.718	98.13	Mar 2000	0.20	+125bp	Yamich (Europe)
2. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
3. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
4. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
5. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
6. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
7. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
8. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
9. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
10. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
11. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
12. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
13. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
14. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
15. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
16. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
17. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
18. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
19. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
20. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
21. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
22. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
23. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
24. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
25. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
26. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
27. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
28. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
29. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
30. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
31. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
32. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
33. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
34. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
35. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
36. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
37. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
38. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
39. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
40. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
41. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
42. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
43. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
44. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
45. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
46. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
47. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
48. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
49. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
50. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
51. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
52. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
53. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
54. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
55. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
56. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
57. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
58. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
59. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
60. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
61. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
62. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
63. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
64. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
65. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
66. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
67. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
68. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
69. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
70. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
71. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
72. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
73. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
74. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
75. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
76. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
77. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
78. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
79. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
80. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
81. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
82. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
83. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
84. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
85. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
86. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
87. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
88. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
89. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
90. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
91. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
92. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
93. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
94. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
95. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
96. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
97. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
98. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
99. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS
100. Bank	150	6.11	98.43	Mar 2002	0.125	+105bp	UBS

points over Treasuries. Deutsche Morgan Grenfell and Goldman Sachs, Germany's L-Bank issued \$400m of three-year bonds via Yamachi, aimed at Japanese investors. There were also two retail deals in dollars: \$300m for Walt Disney,

its first issue since its \$2.6bn global issue a year ago, and IBM with \$500m of two-year bonds. Both deals saw institutional demand in addition to retail buying.

BOC Group issued \$150m of bonds due June 2002, the shortest maturity for funds

can own, which spurred strong interest, lead manager HSBC Markets said. There was also a \$250m four-year issue for the Federal National Mortgage Association via Daiwa Europe, feeding continuing Japanese demand for sterling assets.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Coupon	Red Date	Price	Day's change	Yield	Week	Month
Australia	6.750	111.08	92.80	-1.00	7.25	7.32
Austria	6.000	101.07	102.70	-0.70	5.55	5.55
Belgium	6.250	107.07	104.80	-0.27	5.58	5.58
Canada	7.000	126.06	104.18	-0.00	6.42	6.55
Denmark	8.000	103.08	111.84	-0.10	6.28	6.34
France	6.500	101.01	104.57	-0.17	4.40	4.44
Germany	8.500	106.08	108.30	-0.40	5.38	5.56
Italy	8.000	101.07	103.30	-0.24	5.55	5.74
Japan	8.000	109.08	110.34	-0.20	6.30	6.40
Netherlands	6.500	101.01	104.57	-0.17	4.40	4.44
Portugal	5.750	101.07	102.50	-0.10	5.34	5.38
Spain	6.500	101.01	104.57	-0.17	4.40	4.44
Sweden	7.350	103.07	102.20	-0.20	6.98	6.73
UK Gilts	8.000	109.08	110.34	-0.20	6.30	6.40
US Treasury	9.000	100.08	111.25	-0.20	7.35	7.41
ECU French Govt	8.250	101.07	102.50	-0.10	5.34	5.38
ECU French Govt	7.000	104.06	107.50	-0.40	5.95	5.77

London closing, New York mid-day. Yields: Local market standard. 7 Gross (including withholding tax at 25.3 per cent payable by non-residents). Prices: US UK in 32nds, others in decimals. Source: Reuters

US INTEREST RATES

COMMODITIES AND AGRICULTURE

Côte d'Ivoire pins hopes on two projects

By Kenneth Gooding, Mining Correspondent

Côte d'Ivoire, whose economic prosperity depends heavily on cocoa and coffee, hopes two US\$1bn projects will propel it into the front ranks of West African mining countries in the early part of the next century.

Falconbridge, the Canadian group, is considering a nickel project at Blackouma, in the west of the country, to produce about 30,000 tonnes a year, according to Mr Mohamed Lamine Fadika, minister of mining and petroleum resources.

Côte d'Ivoire also hopes at last to be able to exploit some of the most extensive iron ore deposits in West Africa, at Mount Nymba and Mount Kalaya.

There is 300 tonnes of ore in the deposit but it has been considered uneconomic because the iron content is relatively low at between 33 and 36 per cent.

Mr Fadika says the discovery in 1994 of natural gas just offshore in the Atlantic Ocean should change the picture. Gas could be piped 400km from the port of San Pedro to the Mount Nymba deposits and used to transform ore into iron pellets.

His government is talking to a subsidiary of Normandy Mining of Australia, a Chinese metals group and a local state-owned mining entity, Sodemi, about a project to produce 1.5m tonnes of pellets a year.

Mount Nymba is on the border with Guinea, which has had similar difficulties getting a large iron ore project on its side of the border into production. Mr Fadika says his government is talking to Guinea about sharing the cost of a new rail link between the iron ore and nickel fields and San

Pedro. This could be used to export the minerals.

Guinea of South Africa has been looking at the Guinea iron ore project and considering a rail link through neighbouring Liberia, a scheme that has not made progress because of Liberia's political problems.

Mr Fadika says Côte d'Ivoire wants to develop mining as a "second economic pillar" to buttress its income from cocoa, of which it is the world leading producer, and coffee, where it ranks seventh.

He hopes both the nickel and iron pellets schemes will be operating by 2002 and will generate employment for 1,500. The nickel project would also benefit from the natural gas pipeline if it was developed.

The government is seeking to attract international mining companies and starting to reform the administrative framework in which the mining and oil industries have to operate.

To date, 23 international mining companies have applied for exploration permits and about \$30m was spent on mining exploration in the country last year, mostly looking for gold. The country already has two operating gold mines, producing two tonnes a year.

Several oil projects have been started in Côte d'Ivoire, requiring investment of \$1.5bn. Mr Fadika says natural gas will be used primarily to generate electricity and to make butane gas.

It is hoped that a domestic supply of about 90,000 tonnes a year of butane gas would encourage its use and curb the effect of deforestation caused by cutting firewood. At present, households mainly use increasingly rare and expensive timber and charcoal for fuel.

BHP shrugs off cost of Magma

It was difficult not to assume that Mr Burgess Winter's resignation as chief executive of BHP Copper, the world's second biggest copper business, was not entirely voluntary.

Broken Hill Proprietary, Australia's biggest corporation, paid US\$2.4bn in January 1996 for Magma Copper of the US and in the process recruited Mr Winter, the US company's president, to take charge of a new division combining BHP's and Magma's copper operations.

The first financial results from the division were a shock. BHP Copper reported a 55 per cent drop in earnings for the first quarter of 1996, saying much of the fall resulted from problems at former Magma operations.

Shareholders at the AGM heard that cash operating costs at the Magma properties had jumped from 68 US cents a pound of copper produced at the time of the takeover, to 85 cents.

When, after less than a year in the job, Mr Winter said he would retire, some observers concluded that he was being pushed out.

Mr Winter leaves at this suggestion and leaves it to his successor, Mr Jim Lewis, a BHP employee for 25 years, to explain. "It was always intended that Burgess would oversee the integration and bed down the new management. It took only 12 months but it could have taken three or four years. There is no substance in suggestions that he is being forced out."

The two men are working together to ensure a smooth transition as Mr Lewis eases into one of the most important executive roles within the BHP group.

For the past three years Mr Lewis, 68, has been executive general manager corporate planning and administration. He insists that the jump in Magma's costs was a temporary phenomenon.

"There is nothing fundamentally wrong with Magma. There are no structural issues." When the half-year results were reported in December, BHP said 7 cents a pound had been cut from Mr Winter's production costs.

Mr Lewis said Magma had been profitable in the second quarter and results from North America, although "unfavourable", were improving.

Mr Lewis says suggestions that BHP carried out a purge of Magma management are also untrue. Most senior managers kept their jobs, he says, except the chief financial officer, who was replaced by a BHP executive, "but that is what usually happens after a takeover."

The Magma acquisition was one of the most important steps in BHP's recent history. Not only did it make the "big Australian" second only to the state-owned Codelco in Chile as a copper producer, it also gave it a solid base in the US, the world's biggest copper consumer. It also gave BHP some copper smelting capacity for the first time.



"There is nothing fundamentally wrong with Magma. There are no structural issues." Jim Lewis, BHP Copper chief executive

Mr Winter headed the team that brought Magma back from the dead. It was a loss-making business that was spun off by its parent, Newmont Mining, in 1987 when Magma was the highest cost copper producer in the world, was loaded with debt and had only limited reserves of ore. After dealing with the core cost problem, Mr Winter completed the

Magma revival with a new copper-gold mine, the Robinson in Nevada, and a successful \$250m offer for Tintaya, Peru's second largest copper producer, when that was privatised.

Nevertheless, BHP has been criticised for buying Magma at the top of the market - when both equity and copper prices were riding high. Mr Lewis shrugs and

Fears of Russian strike lift metals

Markets Report

By Robert Corzine and Kenneth Gooding

Prices soared on the London Metal Exchange yesterday, helped by investment fund buying. Aluminium was at its highest for nearly a year, nickel reached a 5-month peak and zinc touched its highest in 4½ years.

The rises were sparked by nervousness in the nickel market about the prospect of a strike at Russia's Norilsk combine, where the union has given the management 10 days to pay back wages. Late yesterday Norilsk's sales agent, Intermetex, said it had received \$50m of a \$200m credit deal and this would "relieve the situation with payment of current wages and arrears."

Oil prices firmed in late London trading after early falls. Brent Blend for April delivery, the global benchmark, was quoted at \$18.85 a barrel in late trading, four cents up on Friday's close. But prices were soft for much of the day after Friday's 50 cent a barrel fall.

On Nymex in New York oil prices were also weak in morning trading, with West Texas Intermediate, the US benchmark, falling below \$20 a barrel at one stage to an eight month low.

BP, Shell announce Shetland oil discovery

By Robert Corzine

British Petroleum and Shell have announced a "potentially commercial" oil discovery to the west of the Shetland Islands. The announcement ends a long period of silence about the companies' exploration of the area around their earlier finds at Foinaven and Schiehallion, both of which are now under development.

Mr Richard Oliver, deputy chief executive of BP Exploration, said that although the Shetland discovery was encouraging, further work needed to be done to establish whether it was commercially viable. Shetland lies to the north of Foinaven and Schiehallion, and is about 100 miles west of the Shetlands.

The Department of Trade and Industry yesterday said it would

offer two new exploration blocks immediately to the north of Shetland. The DTI said it would select companies which were keen to explore the blocks in their entirety, rather than just the parts closest to Shetland.

British Petroleum and Shell have confirmed that they would bid for the blocks, which the DTI said are not subject to a claim by the Faroe Islands.

Talks are continuing between the UK and the Faroe Islands over the future of the nearby contested "white zone," in which a number of oil companies have expressed interest.

Lord Fraser of Carmyllie, the energy minister, said the latest discovery in UK waters "justifies the industry's continuing faith in the prospects for the west of Shetland area and confirms our belief that

there are still significant discoveries to be made on the UK Continental Shelf."

Lord Fraser said any development plan would take into account "local environmental sensitivities and the interests of other sea users."

Foinaven, the first commercial oil field in the area, which is also known as the "Atlantic Margin," is due to come onstream soon.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amsterdam Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	3 mths
Close	1680-1	1687.5-8.0
Previous	1622.5-23.5	1650-51
High/Low	1545.5	1591/1595
AM Official	1645.5-5.5	1671-1.5
Kerb close	1645.5	1590-1
Open int.	280,717	
Total daily turnover	90,385	

ALUMINIUM ALLOY (\$ per tonne)

	Cash	3 mths
Close	1535-40	1557-6
Previous	1523-28	1543-45
High/Low	1500/1500	1500/1500
AM Official	1527-32	1549-50
Kerb close	1527-32	1549-50
Open int.	6,008	
Total daily turnover	1,440	

LEAD (\$ per tonne)

	Cash	3 mths
Close	725-6	705.5-6.0
Previous	725-5	695-6
High/Low	709-99	700-99
AM Official	718-8.5	704-9.5
Kerb close	718-8.5	704-9.5
Open int.	39,902	
Total daily turnover	18,970	

NICKEL (\$ per tonne)

	Cash	3 mths
Close	8215-25	8310-20
Previous	7985-90	8075-80
High/Low	8120	8200/8075
AM Official	8115-20	8205-10
Kerb close	8115-20	8205-10
Open int.	50,398	
Total daily turnover	14,513	

ZINC (\$ per tonne)

	Cash	3 mths
Close	5735-805	5855-60
Previous	5735-805	5855-60
High/Low	5735-805	5855-60
AM Official	5735-805	5855-60
Kerb close	5735-805	5855-60
Open int.	15,921	
Total daily turnover	5,180	

ZINC, special high grade (\$ per tonne)

	Cash	3 mths
Close	1227-8	1240-1
Previous	1205-5-6.5	1225-26
High/Low	1240/1217	1240/1217
AM Official	1205-7	1221-1.5
Kerb close	1205-7	1221-1.5
Open int.	85,616	
Total daily turnover	18,575	

COPPER, grade A (\$ per tonne)

	Cash	3 mths
Close	2475-5-5.5	2410-11
Previous	2458-31	2372-74
High/Low	2455-2450	2415/2377
AM Official	2455-2450	2389-90
Kerb close	2455-2450	2407-08
Open int.	138,328	
Total daily turnover	44,291	

LME ALUMINUM 3% RATE: 1.6195

LME CLOSING 3% RATE: 1.6195

Spec 1575 3 mths: 16130 6 mths: 16119 9 mths: 16093

HIGH GRADE COPPER COMEX

	Sett. Day's	Sett. Day's
Mar	115.55	+1.80 116.00 113.00 2.374 5.153
Apr	114.50	+1.70 114.80 114.20 364 3.053
May	112.75	+1.85 113.70 111.00 4.300 25.476
Jun	110.30	+1.20 110.60 110.00 30 674
Jul	108.50	+1.35 108.80 107.80 560 6.837
Aug	107.35	+1.40 108.50 105.50 10 833
Sep	105.50	+1.30 106.50 103.50 10 833
Oct	103.50	+1.20 104.50 101.50 10 833
Nov	101.50	+1.10 102.50 99.50 10 833
Dec	99.50	+1.00 100.50 97.50 10 833
Total	4,488	58,721

PRECIOUS METALS

LONDON GOLD MARKET

(Prices supplied by N.M. Rothschild)

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.22
AM Official	361.80	362.22
Kerb close	361.80	362.22
Open int.	361.80	362.22
Total daily turnover	361.80	362.22

Gold (Troy oz) \$ price

	Cash	3 mths
Close	362.10-362.40	362.10-362.40
Previous	361.80	362.22
High/Low	361.80	362.

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SYMBOL	PRICE	CHANGE
WTL	95.30	+3.4
WPL	98.30	+0.2
SHAWL	100.00	+0.2
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4
SHAWL	95.30	+3.4

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Vacants: 100
Mooging: 100

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Warrants	116	11	200
Parolees	203	11	200

Algeria	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
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BY TRUSTS SPLIT CAPITAL - Cont.

Company	Price	Change
...

OTHER INVESTMENT TRUSTS

Company	Price	Change
...

INVESTMENT COMPANIES

Company	Price	Change
...

LEISURE & HOTELS

Company	Price	Change
...

LIFE ASSURANCE

Company	Price	Change
...

MEDIA - Cont.

Company	Price	Change
...

OIL EXPLORATION & PRODUCTION

Company	Price	Change
...

OR, INTEGRATED

Company	Price	Change
...

PAPER, PACKAGING & PRINTING

Company	Price	Change
...

PHARMACEUTICALS

Company	Price	Change
...

PROPERTY

Company	Price	Change
...

PROPERTY - Cont.

Company	Price	Change
...

SUPPORT SERVICES - Cont.

Company	Price	Change
...

RETAILERS, FOOD

Company	Price	Change
...

RETAILERS, GENERAL - Cont.

Company	Price	Change
...

SUPPORT SERVICES

Company	Price	Change
...

SUPPORT SERVICES - Cont.

Company	Price	Change
...

TELECOMMUNICATIONS

Company	Price	Change
...

TEXTILES & APPAREL

Company	Price	Change
...

TEXTILES & APPAREL - Cont.

Company	Price	Change
...

TOBACCO

Company	Price	Change
...

TRANSPORT

Company	Price	Change
...

WATER

Company	Price	Change
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WATER - Cont.

Company	Price	Change
...

WATER - Cont.

Company	Price	Change
...

AM - Cont.

Company	Price	Change
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AMERICANS

Company	Price	Change
...

CANADIANS

Company	Price	Change
...

SOUTH AFRICANS

Company	Price	Change
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SOUTH AFRICANS - Cont.

Company	Price	Change
...

SOUTH AFRICANS - Cont.

Company	Price	Change
...

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Prices for the London Share Service are delivered by Ecol, part of Financial Times Information.

Company classifications are based on those used for the FTSE 100. Share indices are based on the FTSE 100.

Market capitalisation shown is calculated separately for each line of stock and is based on the latest available data.

Prices are based on the closing price of the share on the day of publication. Prices are shown in pence, except where stated otherwise.

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WORLD STOCK MARKETS

Rockwell supplies virtually every major car manufacturer with automotive components and systems.



INDONESIA (Mar 3 / Ruydri)

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030

INDONESIA (Mar 3 / Ruydri)

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030

Rockwell[illegible][illegible]

4 cm clear March 5

NEW YORK STOCK EXCHANGE PRICES

[illegible]

Dow hit by telecoms shake-up

AMERICAS

Equity dealers endured a torrid morning as economic data, the weak bond market and some worrying corporate reports pushed share prices lower. *Authors in New York*

Most indices pushed upwards in mid-morning after a report from the National Association of Purchasing Managers which suggested that the manufacturing sector was in good health, but by midday all the most closely watched indices were negative.

The Dow Jones Industrial Average fell 21.17 to 6,856.87. This was mainly due to heavy activity in AT&T, the long-distance telecommunications giant, by far the most actively traded share in the morning session.

It shed \$2 to \$36 on the announcement, at the beginning of its two-day conference for analysts in New Jersey, that it expected to cut costs by \$2.6bn over the next two years, but that earnings for the current year would be lower than expected as a result.

The Nasdaq composite index, dominated by technology stocks, also continued its recent weak performance, off 4.89 at 1,304.11. However, the trend for it to perform sharply worse than the rest of the market seemed to have halted.

Several banks had a poor

morning on new worries that interest rates will be raised soon. They were led by BankAmerica which shed \$2 to \$11.14.

Further congressional testimony later this week by Mr Alan Greenspan, chairman of the Federal Reserve, and Friday's employment report were both thought likely to offer decisive clues on whether monetary policy will be tightened.

The Dow Jones Transportation Average leapt 41.15 to 2,358.16. This was thanks to speculation that the long-running battle for control of Conrail being fought by CSX and Norfolk Southern, two other large north-eastern railway companies, was finally due to be resolved with the companies effectively splitting their target's assets.

All three stocks rallied strongly on the news. At midday, Conrail was up 89% at \$11.14, CSX had gained \$3 to \$49.4, and Norfolk Southern \$2 to \$93.

Takeover speculation also helped a big rally in Dow Jones, owner of the Wall Street Journal, which gained \$14 to \$41.

TORONTO continued to move lower with an uncertain start on Wall Street and nervous bank and resource stocks doing most of the damage. At noon, the TSE-300 composite index was off 31.79 at 6,126.05.

Mexico City off 1%

MEXICO CITY fell 1 per cent in nervous midsession trade as the peso remained under pressure and on concerns over rising interest rates and worries that certification of Mexico as an ally in the war against narcotics might not be ratified by the US Congress.

The IPC index lost 39.26 at 3,801.72. Cemex fell 1.10 pesos at 80.90 pesos on a downgrade by CS First Boston.

SAO PAULO was cautious on worries that a congressional inquiry into a state debt

scandal could be extended to include some large banks and pension funds.

The Bovespa index, having been divided by 10 to make the measure easier for investors to follow, was 56 weaker by midsession at 8,773.

CARACAS lost 1.4 per cent at midsession, as profit-taking pulled the IBC index down 56.69 to 6,613.74. CanTV lost 40 bolivars to 2,120 bolivars although the group said that a 12-hour strike by some employees had not affected its operations.

Renault falls back after car sales figures

EUROPE

Renault continued to dominate the conversation in PARIS, running into widespread profit-taking after an upsurge of almost 20 per cent over the previous three sessions.

News of a big drop in French car sales in February looked to be the catalyst, but sentiment also took a knock from strike threats and worries about litigation in the wake of Renault's plans to close a Belgian plant.

The shares came off FF6.90, or 4.7 per cent, to FF140. The malaise was sector wide, Peugeot losing FF7 to FF623 and Michelin FF5.10 to FF351.70.

Legardere jumped FF3 to FF171; Thomson-CSF takeover hopes were boosted by newspaper reports of meetings between the heads of Legardere and Alcatel-Alsthon, the two main rivals for the hand of CSF.

Pechiney dipped FF1.10 to FF242 ahead of today's results. LVMH fell FF6 to FF1,527 on lower operating profits from the newly acquired DFS of the US.

The CAC 40 index fell 7.39 to 2,600.26.

FRANKFURT speculated, and played catch-up on an indeterminate day, the Dax index easing 2.30 to an 18-

FTSE Actuaries Share Indices

		THE EUROPEAN SERIES									
		Mar 3	Mar 2	Mar 1	Feb 28	Feb 27	Feb 26	Feb 25	Feb 24	Feb 23	Feb 22
FTSE 100	Heavy changes	10,330	10,330	10,330	10,330	10,330	10,330	10,330	10,330	10,330	10,330
FTSE 250		2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00
FTSE 350		2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00

Source: Reuters. All rights reserved.

indicated 3,258.74 as turnover dropped from DM11.3bn to DM8.5bn.

Midcaps outperformed after a relatively dull February, the M-Dax index rising by 0.6 per cent. The construction sector was also strong in advance of a profits statement on Thursday, adding FI 2.60 to FI 125.30, and KLM bounced 30 centimes to FI 99 on indications from the airline that it would not be forging closer links with Northwest Airlines of the US, in which it has a 19 per cent stake.

PolyGram, Philips' music offshoot, gained FI 2.50 to FI 89.50, but Unilever met with further profit-taking. The shares, a strong market lately thanks to restructuring hopes, came off FI 8.40 to FI 353.40 for a two-day decline of close on 5 per cent.

At the end of the session, the AEX index was off 1.20 at 736.36.

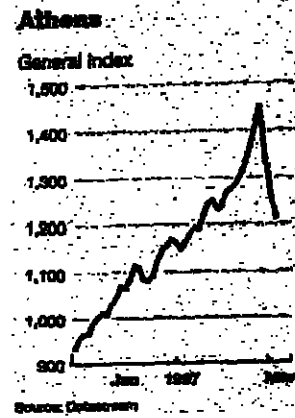
ATHENS tumbled another 7.5 per cent, one of its biggest ever one-day falls, as retail investors continued to try to book profits in a market where few buyers were to be found.

The Athens general index lost 97.09 to 1,206.54 for a three-day slide of 17 per cent. The decline began last Thursday after a 55.7 per cent rally since the start of the year prompted a warning from the market watchdog against speculation or rumour-driven investment decisions.

Some analysts also pointed to the civil strife in neighbouring Albania as a contributory factor yesterday. However, others were sceptical, saying that Albania was neither a military threat nor an important trading partner.

Mr Stewart Harley at Schroders said that there was little sign of support for share prices at last night's close. Shares were marked limit down and with offer prices only on trading screens. However, he believed that the market would stabilise, without outside intervention, at around the 1,150 point level.

ISTANBUL lost 5.6 per cent as political tensions mounted after Friday's call by military leaders for a



Source: Reuters

crackdown by the Islamist-led coalition government against a growing wave of religious zeal. The IMKB national 100 index fell 90 to 1,522. Investors were also said to be hesitant ahead of a census motion, filed by the conservative opposition, which was due to be debated in parliament today.

MILAN rebounded as the market tried to put behind it last week's 4.3 per cent fall, attributed in part to the weaker lira on concern that plans for a single European currency might be postponed. The Comit index eased 0.43 to 741.13 while the real-time index closed up 164, or 1.4 per cent, at the day's high of 11,908. Among the blue chips, Fiat

jumped 1.23 to 14,409 after it raised Italian car prices and on talk of good February domestic car sales and positive progress in its south American car operations. Eni rose 1.57 to 13,804.

Bulgarian picked up 1.1, 1.06 to 139.95 as the jewellery and luxury goods group announced a global link with the privately owned Ferragamo to develop perfumes under the Ferragamo and Ungaro brand names.

Deroma, world leader in the manufacture of terracotta pots, made its debut on the market at an early 1.11, 1.95 before settling back to 1.11, 1.95, still at a sharp premium to the 1.00, 0.00 notation price.

HELSINKI was broadly bearish and the Hex index fell 47.39, or 1.6 per cent, to 2,848.11. The late morning bounce for tech stocks on Wall Street came too late to save Nokia A, down FM7 at DM296.50, but the mobile phone maker, Benetton, jumped FM5.90 to FM98.90 after it said that it had received type approval for its first GSM (Global System for Mobile Communications) handset, the Benetton Gamma.

Written and edited by William G. Cochran, Michael Morgan and Jeffrey Brown

Bombay consolidates 11% post-budget advance

ASIA PACIFIC

Post-budget euphoria left

BOMBAY racing ahead early in the day, building on the cumulative 11 per cent surge recorded in special sessions on Friday and Saturday. However, the BSE-30 index turned back from an eight-month intraday high of 4,007.91 as profit-taking

erased much of the session's advance and the index closed just 13.66 higher at 3,871.05.

Analysts said the breadth and focus of the budget had boosted confidence among domestic investors and pulled in foreign funds anxious not to be left out in the wake of the budget.

Traders described the budget as "path-breaking and market-friendly" as the government announced plans to slash corporate taxes, allow a long, pending company share buy-back scheme and raise investment limit for foreign institutional investors.

TOKYO fell below the 15,500 level for the first time in almost two weeks, after a day of low-volume trading, writes Bethan Hutton.

The market re-opened with no apparent change in sentiment after Friday's fall of 2.4 per cent, and there was little corporate or economic news to encourage a change of direction. The Nikkei 225 average closed 127.87 lower at 15,429.13 after trading between 15,345.55 and 15,517.47.

The other main indices also fell. The Topix index of all first-section shares fell by

11.01 to 1,379.53, and the capital-weighted Nikkei 300 by 2.07 to 263.86.

Volume dropped from 408.9m shares to about 302m, losers led gainers by 844 to 262 with 140 unchanged. In London, the ISE/Nikkei 50 index rose 2.46 to 1,417.33.

Brokers blamed arbitrage unwinding for some of the selling pressure, as well as book-closing trades in preparation for the financial year-end on March 31.

Investors, it was thought, might also be waiting for the Japanese budget to be passed tomorrow in the hope that some stimulus would be announced. Currency movements were not clear enough to give any strong trading incentives.

Toshiba, the electronics manufacturer, was the day's most heavily traded share after it issued a profit warning on Friday. The company blamed the revised forecast for a 32 per cent decline in pre-tax profits from the previous year on a sharp fall in semiconductor prices and slow markets for consumer electronics.

At one stage, Toshiba shares hit a low of ¥670, their lowest since August 1995, but later recovered to close up ¥1 on the day at ¥681.

About 4.3m Toshiba shares changed hands.

All Nippon Airways slid ¥32 to ¥841 following a report that the airline, Japan's second-largest, was expending performance-related pay for its pilots, introduced last year.

Some bargain-hunters emerged later in the day after the Nikkei had fallen around 200 points in the morning, picking up Toshiba and other high-tech stocks.

TDK gained ¥90 to ¥8,170, Hitachi ¥50 to ¥1,050, and Advantest ¥40 to ¥5,860.

In Osaka, the OSX index dropped 175.98 to 19,368.43 in volume of 184.54m shares.

BANGKOK fell 2.5 per cent on the SET index after trading in banks and finance companies was suspended for the day ahead of a central bank statement.

The absence of the leading financials led to thin trading conditions and at the close the SET index was off 21.95 or at 706.61. Turnover was minimal at Bt1.3bn.

The statement from the

central bank emerged during the afternoon. The bank ordered 10 finance companies, including three listed groups, to raise their capital immediately.

The central bank also raised the minimum level of provisions that banks and finance companies must make to cover sub-standard assets.

TAIPEI came off sharply as investors locked into profits in the financial sector. The weighted index lost 103.26, or 1.3 per cent, at 7,850.45. Turnover was hectic at T\$105bn.

Financials plunged with Huan Nan Bank down T\$9 at T\$45 and Cathay Life Insurance falling T\$7 to T\$180. Among industrials, South-east Cement fell T\$1.20 to

T\$30.40. The shakeout followed Saturday's warning from the central bank that individual investors should exercise caution.

SYDNEY closed sharply lower. The All Ordinaries index shed 28.7, or 1.3 per cent, to 2,431.2. Commonwealth Bank fell 24 cents to A\$12.58 and ANZ 25 cents to A\$7.29.

Westpac came off 20 cents to A\$7.10. BHP ended at A\$16.75, down 27 cents.

HONG KONG turned its attention back to recently dull property stocks on expectations of a good response to forthcoming property sales.

The Hang Seng index closed 108.56 higher at 13,507.28 in turnover that pulled back to HK\$9.5bn.

Cheung Kong led the property sector with a rise of HK\$2.75 to HK\$76.75 as the sectoral sub-index, under pressure for the last two months, bounced 2 per cent higher.

KUALA LUMPUR ran into a sell-down in the second half of the session on a combination of profit-taking, forced selling related to settlement, and uncertainty about Wall Street. The composite index lost 10.33 at 1,280.44.

DEHAKA added to losses suffered on Saturday and Sunday, tumbling 2.4 per cent as the threat of political uncertainty unnerved the market. The all-share index dropped 39.38 to 1,508.45 as the main BNP opposition party threatened efforts to bring down the government.

MARKETS IN PERSPECTIVE

	% change in local currency				% change since 1 Jan	% change since 1 Feb
	1 Week	4 Weeks	1 Year	Start of Year		
Austria	+1.20	+4.15	+14.13	+24.90	+0.22	+5.05
Belgium	+2.20	+4.70	+28.13	+33.18	+7.09	+12.55
Denmark	-3.37	+3.57	+35.48	+45.46	+19.10	+25.17
Finland	+0.29	+2.35	+56.24	+60.54	+31.75	+38.46
France	+1.78	+3.90	+31.37	+42.75	+16.80	+22.53
Germany	+2.24	+7.12	+30.29	+41.02	+13.77	+19.57
Ireland	+0.04	+3.82	+30.29	+34.11	+28.07	+32.49
Italy	+5.42	+6.01	+20.10	+22.04	+9.02	+14.57
Netherlands	+0.43	+7.50	+42.07	+49.32	+19.95	+25.07
Norway	+4.87	+0.23	+38.58	+40.49	+25.33	+31.71
Spain	-1.35	-0.45	+37.35	+48.65	+19.71	+25.81
Sweden	+0.33	+4.15	+41.91	+55.68	+30.94	+37.60
Switzerland	-1.10	+4.28	+31.31	+33.99	-0.53	+4.53
UK	-0.49	+0.77	+14.69	+16.31	+16.31	+22.23
EUROPE	-0.67	+0.80	+35.88	+41.39	+14.85	+20.70
Australia	-1.27	+0.84	+7.13	+10.28	+8.49	+16.07
Hong Kong	-0.51	-0.47	+12.94	+28.44	+20.13	+28.25
Japan	-2.62	-1.75	-9.91	-11.96	-27.01	-34.24
Malaysia	+0.08	+4.75	+21.98	+32.00	+26.44	+34.98
New Zealand	-1.62	-6.31	+2.82	+2.10	-2.79	+8.02
Singapore	-2.76	-1.45	-4.46	-5.14	-0.76	+4.29
Canada	-1.30	+0.50	+28.10	+33.36	+26.82	+33.06
USA	-1.35	+0.35	+22.66	+27.85	+21.67	+27.86
Mexico	-1.34	+5.10	+32.42	+36.61	+26.57	+32.07
South Africa	-0.25	+6.77	+4.91	+15.11	-10.90	-6.37
WORLD INDEX	-1.15	+1.38	+15.98	+19.55	+7.85	+13.02

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FT/SP ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS													THURSDAY FEBRUARY 27 1997													DOLLAR INDEX												
Figures in parentheses show number of issues of stock													Currency % chg on day													Week 52 week Low (approx)												
US Dollar Index	Day's % chg	Round	Yen	DM	Local	US Dollar Index	Day's % chg	Round	Yen	DM	Local	US Dollar Index	Day's % chg	Round	Yen	DM	Local	US Dollar Index	Day's % chg	Round	Yen	DM	Local															
Australia (78)	-1.0	198.86	168.82	191.91	197.28	-0.7	220.34	201.28	168.85	194.05	188.70	224.61	188.44	188.80	188.80																							
Austria (24)	-0.7	188.03	141.07	182.30	182.23	-0.7	1.80	188.13	169.60	142.23	183.51	183.45	185.04	174.70	188.77	188.77																						
Belgium (28)	-0.0	213.58	179.57	208.58	202.16	0.0	3.23	235.28	214.58	179.79	206.68	202.21	233.64	203.94	212.92	212.92																						
Brazil (28)	-2.2	222.74	6.00	211.49	177.56	224.27	400.26	0.0	1.35	232.74	212.07	177.85	204.45	450.16	242.07	147.48																						
Canada (114)	-0.6	179.52	0.6	176.48	150.08	173.38	185.50	-0.6	1.89	188.70	151.85	174.58	188.68	242.91	183.61	183.61																						
Denmark (22)	-3.01	44.0	328.43	275.74	317.23	318.80	0.0	1.39	361.31	329.22	275.10	317.39	316.71	376.03	291.30	303.64																						
Finland (28)	-250.02	-1.1	235.98	187.60	227.23	273.69	-1.1	1.94	282.02	288.75	200.23	278.70	283.12	174.47	182.67	182.67																						
France (91)	-218.63	-0.7	190.76	167.71	182.94	184.46	-0.7	2.57	221.32	201.99	186.12	194.42	187.87	222.09	183.87	183.87																						
Germany (59)	-195.72	-0.3	177.84	149.31	171.78	171.78	-0.4	2.51	189.27	178.84	149.38	172.41	172.41	192.67	174.47	173.42																						
Hong Kong (28)	-488.47	-1.0	444.77	373.42	420.58	488.44	-1.0	3.20	484.48	450.55	377.85	454.37	451.81	514.48	402.58	428.63																						
Indonesia (27)	-251.49	-0.6	238.52	191.88	220.72	309.88	-0.4	1.44	263.04	230.67	193.36	222.28	371.48	-	-	250.04																						
Ireland (16)	-238.63	0.1	307.61	285.25	297.12	301.21	-0.1	3.12	338.13	306.10	285.25	297.03	301.59	343.25	255.18	255.18																						
Italy (53)	-34.44	-2.3	76.73	64.42	74.11	105.58	-1.6	1.96	86.35	75.68	65.85	75.68	103.94	88.25	70.81	78.81																						
Japan (403)	-117.37	-1.8	108.65	85.54	108.01	89.54	-1.7	0.88	119.24	108.05	81.12	104.75	81.12	184.68	108.18	149.12																						
Malaysia (107)	-654.63	0.2	698.03	489.57	574.72	625.21	-0.2	1.01	663.55	655.51	489.42	574.11	624.98	690.88	512.47	518.44																						
Mexico (27)	-1367.85	-2.1	1243.02	1043.60	1205.61	1180.31	-0.4	0.92	1397.85	1273.45	1087.55	1227.80	1185.55	1445.88	1048.55	1105.04																						
Netherlands (18)	-343.81	-1.3	312.41	282.29	301.00	277.57	-0.9	2.32	349.54	317.31	282.91	302.91	301.94	346.25	274.25	291.85																						
New Zealand (14)	-58.05	0.4	74.19	65.00	70.00	70.00	0.0	0.15	74.19	65.00	65.00	65.00	65.00	75.00	75.00	75.00																						
Norway (41)	-1.0	278.91	242.00	267.36	278.69	-0.3	0.63	280.03	250.08	252.37	270.09	270.09	270.09	270.09	270.09	270.09																						
Philippines (22)	-204.65	-0.1	187.56	197.50	181.19	270.91	-0.3	2.15	207.12	188.73	195.27	185.25	215.82																									
Poland (28)	-250.02	-0.0	263.60	263.60	263.60	263.60	0.0	0.99	248.65	267.12	264.65	273.21	273.21	273.21	273.21	273.21																						
South Africa (14)	-300.00	-1.1	327.85	275.26	282.73	316.97	-0.9	2.37	384.20	322.41	278.73	320.48	320.48	320.48	320.48	320.48																						
Spain (28)	-207.83	-0.1	188.85	185.58	182.41	225.70	-0.7	1.70	208.78	191.16	184.70	191.16	191.16	191.16	191.16	191.16																						
Sweden (28)	-429.46	-0.9	390.23	367.62	375.69	476.69	-0.7	1.15	432.29	394.81	381.10	390.82	400.00	437.38	325.59	342.56																						
Switzerland (43)	-82.18	0.9	74.08	68.08	71.50	225.57	-0.7	2.12	84.70	72.90	69.80	71.50	71.50	71.50	71.50	71.50																						
Taiwan (28)	-250.02	-0.0	263.60	263.60	263.60	263.60	0.0	0.99	248.65	267.12	264.65	273.21	273.21	273.21	273.21	273.21																						
Thailand (14)	-207.83	-0.1	188.85	185.58	182.41	225.70	-0.7	1.70	208.78	191.16	184.70	191.16	191.16	191.16	191.16	191.16																						
United Kingdom (212)	-251.80	-0.4	250.06	214.98	247.33	255.00	-0.7	1.76	255.05	257.21	248.88	255.05	255.05	255.05	255.05	255.05																						
USA (950)	-321.26	-0.9	321.26	291.22	245.05	281.86	-321.26	-0.6	3.67	320.07	294.34	245.88	293.80	320.07	331.54	254.79	253.69																					
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Zambia

The privatisation of the mines could bring prosperity back to Zambia, but strained relations with donors must improve if the aid flows that remain essential to economic recovery are to be maintained. Michela Wrong reports

'Crown jewels' earmarked for foreign buyers

More than three decades after independence from Britain, impoverished Zambia has taken what history will probably judge to have been the most significant step in its drive to stand on its own two feet and wean itself from reliance on international aid.

After four years of agonising, President Frederick Chiluba's government has bowed to the inevitable and started privatisation of the debt-ridden copper mines. What Zambians have long regarded as their country's "crown jewels" are earmarked for sale to a bevy of South African, Canadian, American and other foreign companies.

The unbundling and sale of Zambia Consolidated Copper Mines (ZCCM), due to be completed by the end of 1997, is the most ambitious reform undertaken since Mr Chiluba came to power in 1991 with a mission to liberalise the socialist system established by Mr Kenneth Kaunda, the former president.

The cornerstone of a privatisation programme already hailed as the most successful in Africa, it holds out the long-term prospect of halting a decline that has reduced Zambia from one of sub-Saharan Africa's most prosperous countries to one of the world's most indebted nations.

"We stand on the threshold," says Mr Theo Bull, a Zambian businessman and economic analyst. "Having climbed laboriously up the mountain, the valley is now stretching out before us. The privatisation of the mines could bring prosperity back to Zambia."

Added together, the various ZCCM privatisations are slated to bring investment worth \$2bn to the decaying Copper Belt, Zambia's industrial heartland, within five years. Not included in that figure is the new development - currently covering as much as a third of Zambian territory - could trigger.

Sadly, however, that breakthrough risks being obscured by politics - namely, the ruling establishment's determination to stay in power at all cost.

Since altering the constitution to bar Mr Kaunda, now the main opposition leader, from standing in November's elections, a government that enjoyed unusually warm relations with the international community in the early years of its existence is scarcely on speaking terms

with donors. In protest at the constitutional tinkering, a flawed poll and a continuing crackdown on dissent, western governments have halted balance-of-payments support, estimated to have totalled about \$140m last year.

Zambia desperately needs that aid, at least until the impact of ZCCM's privatisation makes itself felt. As a recent World Bank report acknowledges: "The importance of aid flows to Zambia cannot be overstated."

At their peak in 1992, disbursements from both multilateral institutions and individual governments totalled an annual \$1.48 bn. They accounted for 32 per cent of Zambia's gross domestic product, and 77 per cent of total public expenditure - a breathtaking \$130 per head.

Even the latest budget, vaunted by Mr Chiluba as a measure aimed at making Zambia's 9.25m inhabitants face up to the realities of self-reliance, assumes \$2.5m in project financing and \$200m in balance-of-payments support from donors.

Preoccupied with economic fundamentals, the World Bank remains on course with its funding. The International Monetary Fund, which suspended payments in 1995 because of

Zambia's failure to meet 10 benchmarks, is this month expected to approve resumption of an Enhanced Structural Adjustment Facility.

But economic analysts agree that with external debt of \$8.4bn to be serviced, this will not be sufficient to tide Zambia along. "It's not enough to have the IMF and World Bank on board," says Mr Elwaleed Taha, IMF representative in Lusaka. "With Zambia's debt and its needs for project funding, the bilateral have to be involved in a finance programme."

Five years ago, the loss of a privileged relationship with the donors would have been hard to imagine.

When the MMD, a broad-based movement embracing trade unionists, businessmen and defectors from the ruling United National Independence Party (Unip), took power in 1991, it could scarcely put a foot wrong.

Mr Kaunda had agreed to stand down in one of Africa's few peaceful handovers, but he left a country devastated by years of economic mismanagement. The 1975 collapse of the price of copper, traditionally accounting for up to 80 per cent of export earnings, had combined with the oil shock to deal a devastating blow.

Output at the over-manned, poorly-managed mines had fallen to half its 720,000-tonne peak. Farming,

neglected since the colonial era, was still paying the price for state interference in the market. Tourism barely existed.

The MMD took swift action. It sacked the executives of state-owned corporations, devalued the kwacha, liberalised agriculture and relaunched a privatisation programme which until then had won only lip-service from the authorities.

But economic achievements have coincided with changes at the heart of the ruling establishment: a steady narrowing of its support base. The moderate "young Turks" who used to advise Mr Chiluba have either left government to stand as independents or been marginalised by increasingly powerful hard-liners.

Accusations of top-level corruption abound but are never acted upon. Many donors say that while the new government line-up failed to impress, they were enormously relieved that Mr Chiluba stopped short of reappointing several cabinet members alleged to have been involved in drug trafficking.

"This is not the party I helped set up," complains Mr Fred M'membe, editor of the Post newspaper. "Chiluba has carved out a party that reflects his character - a party of petty traders and dubious characters of all sorts plus a few intellectuals

looking for self promotion." A founding member of the MMD, he now campaigns with a vengeance against the regime.

Since the November polls, whose outcome was a foregone conclusion after Mr Kaunda's party and six others announced a boycott, the government has not relaxed efforts to relegate the opposition to obscurity, targeting journalists, raiding the offices of electoral bodies and lashing out at non-governmental organisations.

This is not behaviour designed to woo back donors who feel the onus is on the government to signal serious intentions of good governance.

Nonetheless, it is clear the aid freeze must be temporary, not least because a

recent influx of refugees displaced by the fighting in Zaire reminds western governments of the need to prop up one of the few stable countries in an increasingly volatile region. "The donors have poured too much money in over the years to pull the carpet from under us at the last moment," says a government official.

A diplomat admits that each side is waiting for the other to blink. "It's a game of chicken at the moment; a game of double bluff. If we show weakness, the hard-liners will know they can get away with anything."

But the longer the stand-off continues, the higher the eventual price Zambia will pay. Donors admit that in an era of compassion fatigue, the break in relations will provide many governments with the perfect excuse to slash generous aid budgets. Funding will resume, but not at the old levels.

That means that until ZCCM's privatisation begins to have its invigorating effect - and there is the ever-present danger of the company's collapse before it reaches that point - mid-term prospects for a country with per capita incomes of just \$380 are bleak.

The shoots of growth are undeniably there. More than 80 per cent of the 280 state-owned enterprises have now been privatised and many of the multinationals whose

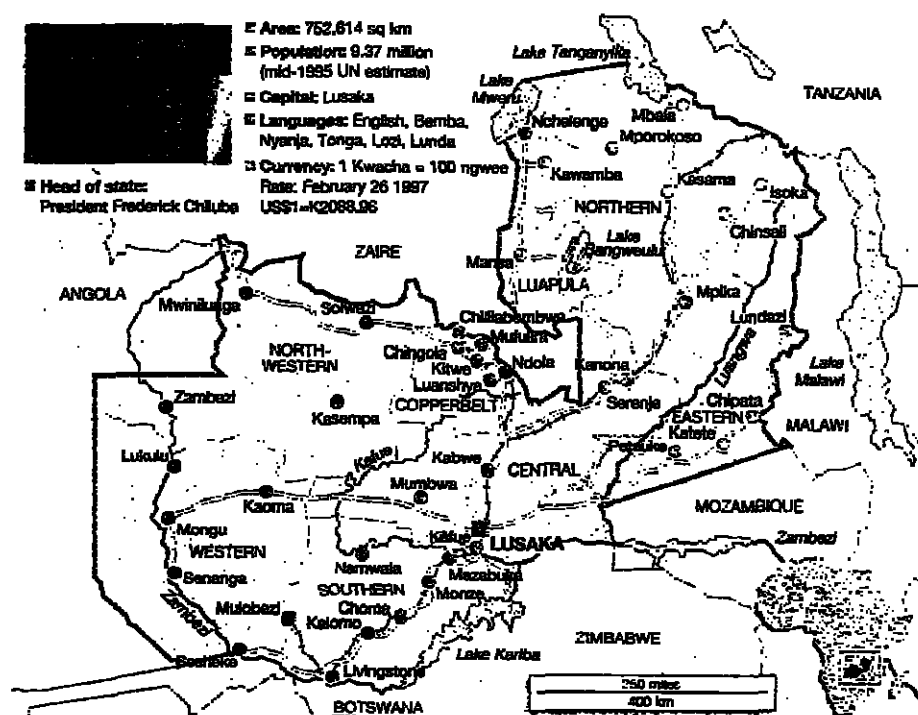
companies were nationalised under Mr Kaunda are returning.

Britain's Commonwealth Development Corporation alone has invested \$55m since 1991, making Zambia the institution's most important investment in Africa. Much of its investment has gone into the non-traditional exports - cotton, tobacco, coffee, roses, baby vegetables - that economists believe hold out most hope for the future as the southern African market opens up.

But investment and savings levels remain worryingly low. Without more funds - whether from the donors or from ZCCM's privatisation, there are few hopes of revamping the country's deteriorating roads, railway network, schools and hospitals.

In addition, medical experts predict the Aids virus, believed to have infected as many as 700,000 adults, could have a crippling impact on the economy unless foreign governments come to the rescue.

"Two years ago everything was looking fine and dandy," says Mr Bull. "There was a general improvement in the economy, social stability and we were on friendly terms with the donors and our neighbours. Now we face a couple of very difficult years. We have squandered the support we enjoyed, for nothing."



Economic summary		
	1996(e)	1997(f)
Total GDP (nominal, \$bn)	3.67	4.66
Real GDP growth (annual % change)	3.6	3.2
GDP per head (\$)	371	422
Inflation (annual % change in CPI)	45.0	35.0
Industrial production (annual % change)	1.5	3.7
Money supply, M2 (annual % change)	46.3	38.6
Foreign exchange reserves (\$m)	150	180
Government spending (% of GDP)	28.2	27.7
External debt per head (\$)	693	682
External debt (% of GDP)	186.7	157.9
Current account balance (\$m)	-295	-330
Merchandise exports (\$m)	1,010	1,040
Merchandise imports (\$m)	-990	-900
Trade balance (\$m)	120	140
	(e) estimate	(f) forecast
Main trading partners (1995)		
18%	Japan	9%
13%	Saudi Arabia	n.a.
12%	Thailand	n.a.
Exports	India	n.a.
	South Africa	28%

Advertisement

"Be our partner in business and development"

A message from the President of Zambia

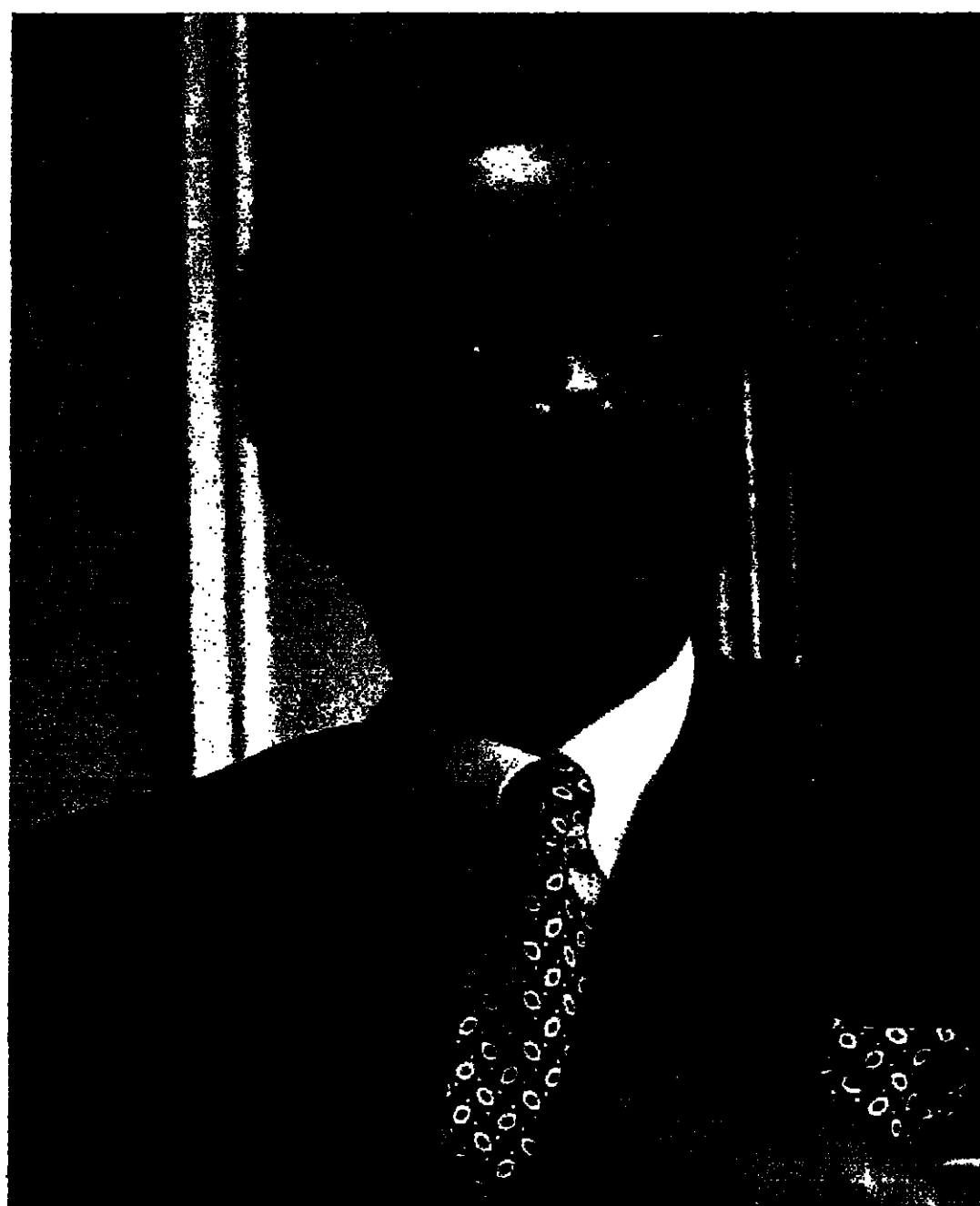
On the 2nd of November 1991, a new Zambia was born, a Zambia of multiparty democratic political process with open market liberalised economic policies. Indeed, since July 1992, the Zambian Privatisation Agency has successfully privatised 155 companies which have included big corporations like Zambia Sugar Company, Chilanga Cement, Zambia Breweries, Refined Oil Products (now Lever Brothers), and now the privatisation of the Zambia Consolidated Copper Mines (ZCCM) is in an irreversible gear. We want to continue this record of success. How?

The new investment act has added fresh incentives to investors. The tax system is being reformed to encourage new investments and make business grow. The financial market has been opened up enabling investors, traders and visitors easy access to their financial needs, with the banking system fully geared up to provide support in the new business environment. Exchange control regulations have been removed, making it possible for investors to bring in their money in whatever currency and get it out in their preferred currency. When you combine these benefits with the Government's business-like approach in reducing inflation and establishing a stable macro-economic framework it makes Zambia one of Africa's most attractive destinations for foreign investment.

The Government is working to rehabilitate the physical, industrial and social infrastructure, in terms of roads, railways, electricity, schools, hospitals, sanitation, sewerage and water supplies, for both the rural and urban populations. The country aims to reach new heights as the 21st century approaches. A promising, prosperous Zambia with its youthful population and labour force is eager to make Zambia rich under democratic norms which in practice ensure that the poor do not become poorer, even though the rich may get richer. For you can only build a healthy economy with a prosperous people.

Come and join us, as an investor, trader, visitor or worker. We are now ready with a new business outlook and a renewed, reassuring political mandate in our emerging democratic governance. Be our partner in business and development.

For more information contact: Permanent Secretary, Ministry of Information and Broadcasting Services, P.O. Box 51025, Lusaka, Zambia. Tel: ++(260) 1) 250535 Fax: ++(260) 1) 253457 Telex: 40113.



President Frederick Chiluba

Photograph: Ian Murphy

2 ZAMBIA

THE ECONOMY • by Tony Hawkins

Welcome global trend

Ultimately, it is foreign investment that will make or break Zambia

Anyone listening to Mr Ronald Penza, finance minister, recounting his government's commitment to economic reform, and fiscal and monetary discipline, could be forgiven for believing that here, at last, is an African government that means business.

And it is not the empty rhetoric that comes so easily to finance ministers' lips. The track record is there for all to see - Africa's most ambitious and successful privatisation programme, sweeping trade liberalisation, the deregulation of the economy and that most rare of African achievements, a fiscal surplus.

Asked to explain the \$139m of foreign direct investment and \$330m in short-term capital inflows to Zambia during 1996 - a year marked by political uncertainty, a sharp fall in the price of the country's chief export, copper, and the freeing of donor balance of payments support - Mr Penza says that at last the global business community is beginning to take Zambia seriously.

He can summon other evidence of this welcome trend: the commitment of four leading mining houses - Cyprus Amax of the US, South Africa's Anglo American and Genor and Canada's Falconbridge - to develop, subject to satisfactory feasibility studies, the Kansanshi and Konkola Deep copper mines.

In February also, the Anglovaal-Commonwealth Development Corporation consortium was due to sign an agreement to develop the Konkola North copper property. Taken together with the privatisation of the state-

owned Zambia Consolidated Copper Mines (ZCCM), these developments could lead to investment of up to at least \$2.5bn in the Copper Belt over the next decade, reversing a generation of decline.

Multinationals that left - or were pushed out - in the 1960s and 1970s are returning. Unilever has bought back its plant in Lusaka; Tate & Lyle with the CDC is reviving the country's sugar industry, while GDC has done the same at Chilanga Cement.

South African retail chains - Shoprite Checkers, Pep Stores and Ackermans - have opened their doors. Lonrho and South Africa's Clark Cotton are expanding cotton and textile activity and last month AECI and Afrox, subsidiaries of ICI and BOC, signed privatisation buy-out deals with the Zambia Privatisation Agency.

And yet, a comparison of Zambia's ramshackle infrastructure with that of Zimbabwe, or even Ghana and Kenya, is a reminder that there is much more to turning an African economy around than getting policies and prices right.

"Go to the Far East, and no-one has heard of us. We don't promote and market ourselves very well," says Mr Bwalya Ngandu, director-general of the Zambia Investment Centre. And Zambia's case is not helped by the fact that potential investors must trudge up four or five flights of stairs to reach the ZIC's offices in Lusaka because the lifts don't work!

Yet, ultimately, it is going to be foreign investment, with a diminishing input from the donor community, that will make or break Zambia. The latest official numbers paint a dismal picture of investment which has averaged 10 per cent of gross domestic product during the 1990s.

Given that with its run-



Helping hands: Mr John Kelly, a surgeon from Birmingham, England, with patients at Monze Hospital in southern Zambia, where he has been instructing local doctors as part of a voluntary programme run by the British Executive Service Overseas (Beso).

The charity has completed 25 assignments in Zambia in the past two years, providing volunteers, training and advice. Without such help, lack of training and health facilities - as well as roads, railways, electricity and telecommunications - threatens to hold back Zambia in the 21st century.

down infrastructure, most notably the road network, Zambia needs to invest 10 per cent to 15 per cent of GDP merely to maintain the existing capital stock, the economy is living on borrowed time.

Domestic savings are insufficient even to finance these levels of (negative) net investment. Growth of 5 per cent to 6 per cent annually, which is what Zambia desperately needs after a generation of declining living standards, implies gross investment of at least 25 per cent if not 30 per cent of GDP. And where is that to come from?

As incomes recover, so too will domestic savings, although the ravages of

inflation over the past 15 years have all but killed the savings culture. Foreign assistance will add its contribution, albeit a declining one, as aid fatigue and donor disenchantment with Zambia's governance and corruption shenanigans take their toll.

Which leaves foreign capital to fill the gap.

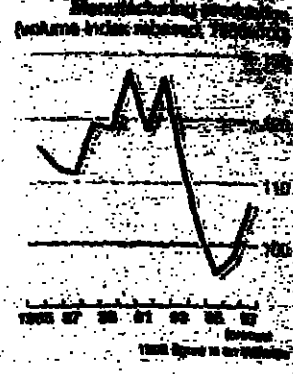
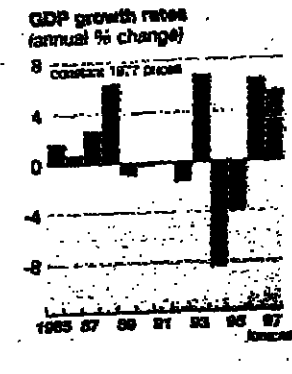
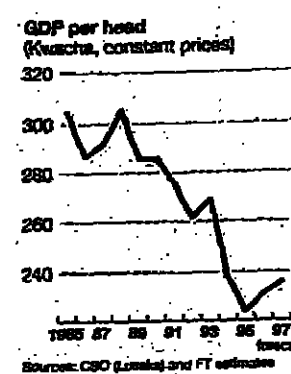
The good news is that already the multinationals are beginning to do just that. In the past three years, foreign direct investment has more than trebled, to \$132m last year from \$40m in 1994, while short-term capital has swung from an outflow of \$78m in 1994 to last year's surprisingly large \$330m inflow.

Privatisation is central to the process of rebuilding Zambia's image as an investment location. Now that the protracted heel-dragging over ZCCM privatisation - which has cost the economy two years of growth, if not more - is over, and some 60 per cent of the ZPA's working portfolio of state enterprises is in private hands, foreign investor interest and confidence is increasing.

Ironically, last year's relative stability - from April - of the kwacha, one of the continent's sickest currencies in recent years, contributed to this foreign investor "feel good" factor.

The kwacha's uncharacteristic stability is ironic

Key statistics



because last year's 15-20 per cent real appreciation of the currency is doing nothing to help - and could well undermine - the government's successful drive to promote non-traditional exports. These have more than doubled in the past five years, reaching \$250m in 1996, helping to offset at least some of the lost copper earnings.

But thoroughly appropriate though the emphasis on private foreign investment may be, there is no underestimating the present and future role of public funding. More than anything else, the infrastructure - in the very broadest sense of the word, encompassing education, training and health facilities as well as roads, railways, electricity and telecommunications - threatens to hold back Zambia in the 21st century.

The national budget highlights the problems facing the state. More than half of recurrent spending is earmarked for salaries, interest costs and defence, while the domestically-funded capital budget is a mere \$100m or less than 11 per cent of the total. Foreign aid pays for a third of Zambia's budget, including external interest of just over \$100m and \$260m of capital expenditure.

In 1996, tax revenue accounted for only 18.5 per cent of GDP. Once interest payments and the public sector wage bill have been taken into account, this leaves precious little for day-to-day operating costs, and maintenance of, and investment in, the infra-

structure. Take away the donor contribution to interest charges and capital spending, and the 1 per cent of GDP budget surplus becomes a whopping 7 per cent deficit.

Despite this, Zambia fell out with its foreign supporters in 1996 not just over political issues but also over economic mismanagement.

The multilateral lenders and donors had every reason to feel aggrieved when after years of patching together the Rights Accumulation Programme (RAP) which allowed Zambia to pay off arrears owed to the IMF and World Bank accumulated during former President Kaunda's economically disastrous tenure, Zambia promptly lurching off the rails, breaking six of the 10 benchmarks agreed with the Fund under an Enhanced Structural Adjustment Facility programme.

In Washington last year, the IMF official responsible for Zambia was transferred, making way for a new, harder line. The mid-term review of the programme, which ought to have been completed last year, was postponed and due to be approved by the IMF Board at the end of February.

The Fund agreement is crucial because without it, the World Bank is unlikely to call the donor consultative group meeting, necessary to agree an aid programme, with the bilateral donors still smarting from last year's unresolved row over governance, corruption and human rights issues.

The short-term outlook has brightened considerably. After 6.4 per cent growth last year - primarily the agricultural rebound after severe drought, underpinned by the beginnings of a recovery in manufacturing, and growth in cobalt production, tourism and non-traditional exports - GDP is expected to increase at least 5 per cent this year, following a second good rainy season.

Inflation will slow from 43 per cent to about 25 per cent to 23 per cent in 1997, while interest rates will fall by at least 20 points and the balance of payments will return to overall surplus, provided the short-term capital inflows are maintained. However, this is problematic given the likelihood of significant kwacha depreciation.

But even with the benefits expected from privatisation and structural reform, the long-term prognosis is unpromising. The World Bank believes the AIDS epidemic will reduce the rate of population growth from 2.6 per cent annually in 1986 to 2.4 per cent by 2005, while topping 1.3 per cent a year off GDP growth, which the Bank projects at 4.5 per cent over the next decade.

Unless Zambia can attract really substantial - East Asian - levels of private foreign direct investment, which is unlikely, its economy will continue to underperform and it will take half a century to bring about significant improvements in the lifestyle of the 70 per cent of the population currently living in poverty.

THE STOCK EXCHANGE

New listings will help fledgling fly

New listings will drive activity on the fledgling Lusaka Stock Exchange (LuSE) during 1997 with Zambia Breweries, controlled by South African multinational SA Breweries, expected to float some of its shares during the second quarter.

The Zambia Privatisation Trust Fund (ZPTF) has appointed Citibank as the issuing house for the Zambrew issue of at least 10 per cent of the shares in the Lusaka-based brewery which were retained by government when the company was privatised in 1994.

Other likely new listings include similar post-privatisation offers by the ZPTF of shares in BP Zambia (25 per cent of the equity) the metal fabricators group, Zamefa, in which US-based Phelps Dodge is the controlling shareholder, and National Breweries, where Lonrho has a controlling stake which brews opaque beer. The Luxembourg-listed conglomerate Trans-Zambesi Industries may also seek a Lusaka listing this year.

After a slow start from its launch in February 1994, the LuSE came to life last year when market turnover jumped from the



Street vendors stockpile their assets: Zambia Sugar shares attracted foreign investors

\$300,000 averaged in 1994-95 to \$2.6bn. The volume of business in the five listed and three quoted companies jumped from under \$m shares in 1995 to 241m last year, but although there were three new listings - ZCCM "B" shares, also listed in London and Paris, Farmers House and Zambia Sugar - market capitalisation actually declined 48 per cent to \$229m.

It has since more than doubled, chiefly reflecting speculative buying of ZCCM shares ahead of privatisation. By mid-February, with ZCCM shares quoted at \$3,500 - there were no trades at that level which was way

below the Paris price of \$5,891 - the LuSE market capitalisation had risen to almost \$600m, of which ZCCM accounted for more than half. However, this is a somewhat artificial calculation given the fact that less than 11,000 of the 89.3m ZCCM shares were held in the Lusaka share depositary.

A welcome feature of last year's activity was the growth of foreign participation. Some 48 foreign investors took up more than 40 per cent of the Zambia Sugar share issue, buying \$1.4m worth of shares, while in secondary market trading foreigners accounted for 90 per cent of business during 1996, with trades valued at close to \$2.4m.

Future prospects, driven primarily by the sale by ZPTF of the state's minority holdings in privatised companies, are bright. Over the next few years, Zambian and foreign institutions and investors will be able to participate in a widening range of businesses that will give exposure to most facets of the Zambian economy. Eventually this will include the state's minority stakes in the demerged ZCCM.

Tony Hawkins

THE BUDGET • by Tony Hawkins

Situation is extremely fragile

Foreign taxpayers may soon be picking up 34 per cent of Zambia's budget tab

Businesses and donors have both broadly welcomed the 1997 budget of Mr Ronald Penza, finance minister, although it contained no startling new initiatives.

The 2.5 per cent reduction in the rate of VAT to 17.5 per cent came as something of a surprise given the anticipated reduction in donor assistance, but so long as the tax base is growing rapidly - and Mr Penza is forecasting 5.5 per cent after last year's 6.4 per cent growth in gross domestic product - tax cuts are possible.

Worries that last October's elections would provoke a flurry of unbudgeted spending proved unfounded, and the domestic budget - excluding aid - returned a small surplus (\$53bn) despite increased spending on interest costs and the repayment of domestic arrears. VAT and trade taxation revenues were well ahead of budget too.

Although Mr Penza has budgeted for a surplus of \$53bn (1 per cent of GDP) on the domestic budget this year, the hard reality is that the real budget deficit - before foreign funding - remains unsustainably high at 7 per cent of GDP.

If Lusaka can patch up its relations with the donor community - which is probable, but cannot be taken for

granted - foreign taxpayers will be picking up 34 per cent of Zambia's budget tab. This is a highly fragile situation given the increasingly parsimonious attitude of Organisation for Economic Co-operation and Development parliaments.

Last year's budget surplus is being used to retire short-term domestic debt which is having the beneficial effect of forcing down interest rates. The Treasury Bill rate had tumbled 14 points by mid-February to the low 40s with further falls anticipated as inflation (33 per cent in January) continues to slow.

Dr Jacob Mwanza, governor of the Bank of Zambia, is even more optimistic than the finance minister, predicting inflation in single figures by the end of 1997, compared with Mr Penza's more cautious 15 per cent. Average inflation for the year could fall from 43 per cent last year to 25 per cent or even lower, bringing bank lending rates down to the mid-30s from 57 per cent in January.

Getting the monetary policy mix right is not going to be easy. The worry must be that sharply lower lending rates will fuel private sector credit growth, resulting in faster money supply expansion that will reverse the current slowdown in inflation. It is also likely to mean a weaker kwacha. After last year's 15-20 per cent real appreciation of the currency, this would be no bad thing, although it will have an inflationary impact. Certainly, sustaining rapid



The kwacha stood up better than expected thanks partly to strong growth in non-traditional exports - such as these roses en route to Europe from York Farms, an enterprise near Lusaka managed by the Commonwealth Development Corporation

growth in non-traditional exports will become increasingly difficult if the authorities allow - even encourage - the real exchange rate to appreciate again during 1997.

With firmer copper prices since the new year, and with some limited signs of a thaw in donor relations, the short-term balance of payments outlook is more cheerful than only a few months ago.

The kwacha stood up far better than expected last year - despite the aid freeze and catastrophic decline in copper earnings - thanks to significantly improved cobalt exports, strong growth in non-traditional

short-term cash flows and problematic donor funding. With the Bank of Zambia upbeat about long-term, as well as short-run inflows, the slightly lower projected current account deficit for 1997 is forecast to be more than financed by capital inflows, resulting in a \$30m build-up in the country's depleted foreign reserves.

Zambian ministers and officials hope that the country will qualify for the World Bank-IMF debt initiative for highly debt-stressed countries. But with a debt of \$6.4bn and a debt-service ratio last year of about 20 per cent, Zambia is not likely to be at the top of the list, especially since the IMF and Bank are likely to demand at least two years of good performance under the Enhanced Structural Adjustment facility programme before contemplating debt forgiveness.

The disturbing aspect of all this is that for all Lusaka's rhetoric about increasing self-reliance and reduced dependence on donors, the numbers portray an economy that, for the foreseeable future, will have to rely heavily on foreign capital inflows of one kind or another.

If the Zambians can get their act together sufficiently to switch from aid to a mix of foreign investment and trade, so much the better. But the unhealthy focus on donor attitudes and opinions suggests that this necessary realignment of Zambian financing is still some way down the road.

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INTERVIEW WITH PRESIDENT FREDERICK CHILUBA • by Michela Wrong

At the heart of politics

President Chiluba defends the delay in privatising Zambia's vital copper mines, acknowledges a chilly relationship with aid donors, and remains unrepentant about constitutional changes which precluded his predecessor, Mr Kenneth Kaunda, from standing in last November's poll.

Question: Do you regret the long delay in privatising Zambia Consolidated Copper Mines (ZCCM)?

Answer: Not at all. This is our biggest public asset. So mining is not just an economic activity, it lies at the heart of Zambian politics and one has to be very careful. Every Zambian has an interest in copper. The delays were not intended, they were the time it took to handle this matter with the necessary care.

Our economy is essentially a mono-economy and for a long time to come we will have to count on copper. With the exception of the last two years, the picture has been very sad. Partly because of a lack of capitalisation, when the market price was good, we

failed to benefit because of low production and when production picked up the price was low. We were moving in circles. Have the reform programmes drafted by the International Monetary Fund and World Bank been suitable for Zambia?

The biggest problem is the inability of the two institutions to look at countries in their peculiarity. But the one great lesson which we've learnt and for which I thank them eternally is their insistence on countries consuming what they are best at producing and lessening their dependence on the outside world.

For all their crimes and evils, that lesson alone makes them good friends of the countries they reform. The latest budget caters for donor aid coming in, but at lower levels than has been the norm. For the first time in that budget, we are saying that Zambians have a duty, an obligation, a responsibility, to develop, to work, to sweat, to toil, to produce certain things in their own

country. You can't depend on the British, the Americans, the Germans, the French, the Japanese to pay your salaries here. You must generate your own money.

On matters of great importance, yes: ask them for help. But we must not look to that aid as the primary reason for our efforts to move forward. We must take the lead in helping ourselves. Your relations with the bilateral donors are strained and in fact bilateral aid has been suspended. Do you believe that suspension will be lifted?

It is true, relations have been somewhat chilled; a little colder than we would have liked. We were not opposed to the views of the donor countries but to the way in which they made those views known, which we felt was a little inappropriate in a democracy. What about the issue that triggered the aid freeze - amending the constitution in a way that prevented Kenneth Kaunda from standing?

The people have the right to change their constitution. We set up a multi-party commission including opposition members, the church and non-governmental organisations, who went around the country canvassing opinions. Only then did the MMD give its opinion.

Dr Kaunda was not being aimed at. At the time the commission was appointed, he had publicly announced his retirement from politics. If he had kept his word and retired, this controversy would have been avoided. Meanwhile, although the budget caters for bilateral aid coming in at lower levels than has been the norm, the fact remains that aid has been suspended. Do you believe that suspension will be lifted?

The international community understands that poverty anywhere constitutes danger everywhere. The world's resources need to be distributed from countries that are doing well to those in need. If those governments consider aid as

charity, maybe they won't continue to bring it. If they consider it a necessity for the human race to share the wealth of the globe, then there will be transfer.

Why not help those who are helping themselves? We depend on the goodwill of our friends but we cannot force them. Some diplomats in Lusaka say they are looking for a goodwill gesture from the government, such as a crackdown on corruption. Is there any serious move planned on that front?

It is a total misconception for our partners to think they are forcing these things down our throats. Corruption is a vice and it is in our own interest as Zambians to remove it. The Anti-Corruption Committee has been set up and all that remains is to appoint people to the board. We have already taken certain measures that don't exist in other countries.

What is incomprehensible is that because we have adopted high standards, we are now judged by those high standards. The MMD now has a



Chiluba: 'The benefits of reform have started trickling down'

crushing majority in parliament, the opposition is out in the cold and only a few independents have seats. Would it not be healthy to try and embrace the opposition in the political process?

It's ironic that a government which is an outright winner is being asked to form a coalition. You could expect that to be asked of a minority government, not a majority government. But even if there was not a single independent in

parliament, the government remains accountable to its constituencies.

One can never become complacent and forget the voter. Are you hoping to benefit from the recent IMF proposals to alleviate the debt burden on the world's most heavily indebted countries?

We believe we qualify for a heavy write-off or reduction of external debt. What have we failed to do to see the structuring programme

through? When we took office, 40 per cent of our GDP [gross domestic product] was going towards servicing our debt. In such circumstances there's little or nothing remaining for investment; you make one step forward and seven steps back. We need help.

Looking back on your five years in office, what do think you have achieved? We've seen a remarkable turnaround, especially in people's attitudes. We've moved from an emphasis on consumption to an emphasis on production; a realisation that we've depended too much on things we didn't produce ourselves.

Our people now believe you can only expect something when you work, and that extends to government services such as hospitals and schools. 'The world doesn't owe us a living. In agriculture, many difficulties remain with crop financing and marketing, and that's why the government hasn't pulled out completely. Tourism has started contributing again to our economy and its potential is almost limitless. The benefits of reform have started trickling down, although not many people can see that yet.'

PROFILE

Investing in fresh fields

With investment of \$55m in Zambia over the past five years, the Commonwealth Development Corporation (CDC) is arguably the country's largest single foreign investor since the launch of reform in 1993.

Zambian investment now accounts for 5 per cent of the CDC's total portfolio, making it the corporation's largest investment site in Africa.

For the most part, the 1990s investment has focused on traditional areas such as agriculture, cement and financial services. But with its involvement in a consortium with a technical partner, South Africa's Anglovaal mining group, to develop the exciting Konkola North copper property, the CDC is moving into largely unfamiliar territory.

The group's participation in Zambia dates back to the 1940s when it invested in Chilanga Cement, subsequently nationalised in 1973 by the Kaunda government.

Privatisation enabled it to buy back a 50.1 per cent controlling interest, since when the CDC has embarked on a \$50m rehabilitation and expansion programme.

Chilanga, now listed on the Lusaka Stock Exchange, serves the local and export markets (Malawi, Zaire, Zimbabwe).

Mr Ernest Mubombi, CDC executive in Lusaka, says expansion is needed because once post-privatisation development of the Copper Belt takes off, Chilanga will not have the capacity to satisfy local demand.

Its technical partner in Zambia Sugar, also a privatisation purchase, is



CDC participation in Zambia dates back to the 1940s when it invested in Chilanga Cement

UK multinational Tate & Lyle which has 50 per cent of the equity. The CDC owns 28.1 per cent and is participating in a \$70m expansion programme to expand production to 250,000 tonnes a year from 150,000. The company is having an important impact on development through its encouragement of sugar outgrowers.

The CDC has controlling interests in a number of substantial farming properties focusing on the production of coffee, wheat, maize, soya beans and vegetables and horticulture. Its York Farms property (51 per cent owned) exports roses to Europe and vegetables to the UK, supplying the Tesco food chain. The CDC produces three-quarters of Zambia's coffee, and exports wheat and soya to South Africa.

With the purchase of a warehouse in Kitwe - also a privatisation deal - the CDC has moved upstream with an \$8m investment in a flour and maize mill with the capacity to produce 7

tonnes an hour of flour and maize meal.

Other industrial investments include a \$10m loan - part of a \$30m co-financing package with the African Development Bank and the European Investment Bank - to a leading textile exporter, Swarp Textiles. The CDC has also lent \$5m to a pharmaceutical manufacturer, Gamma Pharmaceuticals.

The group bought a finance company, Industrial Credit, from Lusho and Standard Chartered Bank into which it has since injected \$7m with plans for a further \$10m.

Future developments are dominated by planned diversification into mining. With Anglovaal, CDC has bid for the Nchanga-Nkana package in the unbundling and privatisation of ZCCM, and is also a bidder for Chambishi mine. It is looking at bidding for control of Maamba Collieries which could involve an investment of \$20m and two smaller properties, Ndola Lime and Nampundwe Mines which produces pyrites.

With its participation in Konkola North and assuming that some of its bids for ZCCM privatisation are successful, CDC is set to become a significant player in Zambia's mining industry in the 21st century.

The group's strategy in Zambia is driven by its confidence in the long-term impact of the economic reform and privatisation programmes, without which very little - if any - of this investment would have taken place.

Tony Hawkins

POLITICS • by Michela Wrong

Elections leave a bitter legacy

Reconciliation with aid donors is proving to be a difficult and slow process

Arranging to meet an opposition leader, ruling party politician or journalist in Zambia these days is a frustrating experience. A call to their office brings a uniform response: "I'm afraid he'll be in court that day."

The plethora of legal actions being fought across the country - ranging from libel cases against newspaper editors to cases challenging President Frederick Chiluba's origins and opposition leader Kenneth Kaunda's nationality - is a measure of the bitterness created by last year's elections.

The November polls - staged under a new constitution that prevented the main contender from standing and using an electoral register that embraced only half of the country's eligible voters - left a sour taste.

Many ordinary Zambians, whether supporters of the ruling Movement for Multi-party Democracy (MMD) or Mr Kaunda's United National Independence Party (Unip), felt ashamed of a process that undermined their country's reputation as a democratic model for the continent, lumping Zambia with other African nations whose leaders bend the rules rather than risk losing power.

Once cordial relations between the government and bilateral donors, who cut off balance of payments support in protest at the electoral shenanigans, are badly damaged, with neither side yet willing to apologise for harsh words exchanged.

The sad part is that the trauma was entirely avoidable. Political analysts agree

that if Mr Kaunda had been allowed to stand, President Chiluba and his party would easily have triumphed among a population that still remembers the abuses committed during the former president's 27 years at the helm.

Instead, the MMD panicked, adopting a constitution that not only excluded Mr Kaunda on the grounds that his parents were Malawian but also made it impossible for his vice-president to stand because he was a traditional chief.

With Unip and six other opposition parties boycotting the polls, the result was a landslide for the ruling establishment. The MMD now controls 130 of the 150 parliamentary seats.

But the fact that little more than half the 2.2m registered voters bothered to cast their votes raises fundamental questions over the validity of the government's mandate. It also accounts for the tone of defiant belligerence from the authorities, and their hyper-sensitivity to criticism.

In choosing to sacrifice \$140m in 1996 balance of payments funding - and to jeopardise an aid relationship that at its height has brought an annual \$1.48 bn into Zambia - the government was taking a calculated risk.

It assumed that once the elections were safely won it would be able to woo back the donors, understandably reluctant to turn their backs on Zambia after years of support at levels arrived by less favoured African states.

Certainly, with the rest of central Africa teetering on the edge of chaos, it has always been a question of when, rather than if, aid is restored to one of the region's most stable states. "The Zambians looked at what Zimbabwe and Kenya



Kaunda: the population still remembers abuses during his era

had managed to get away with and took their cue from that," says Mr Guy Scott, head of the small Lima opposition party.

Sure enough, the first tiny signs of rapprochement are there. After a long break in communications, Mr Ronald Penza, the finance minister, has recently started meeting western ambassadors again. He talks optimistically of a "new spirit of co-operation" with the donors who, he claims, now accept that the polls were fair.

But the fact that Mr Penza is ready to see acceptance of a flawed process where none exists, and other senior officials report signings of new aid agreements where none have occurred, reveals the extent to which the pragmatists in government are alarmed by the slow pace of reconciliation.

Acting as a strong brake on the process is the increasing radicalisation of the MMD, which has progressively shed its moderates since starting out as a broad-based movement united by its rejection of Mr Kaunda.

"Chiluba is getting more dictatorial and authoritarian by the minute," says one ambassador. "The number of people with influence over

him have declined, and they are now the hard men who feel most rancour towards the donors. There are no more moderates."

To many people's surprise, the government has continued to squish dissent since its electoral victory, threatening to seize the assets of non-governmental organisations, suspending journalists in the state media and raiding the offices of monitoring groups that declared the polls flawed.

"The MMD hasn't understood that when you win you become magnanimous," comments a diplomat.

It has shown no signs of being ready to make concessions to Unip, now staring slow obliteration in the face. Burdened with a 72-year-old leader who cannot stand in the next elections, in 2001, and boasting not a single parliamentary seat, the party can do little more than challenge the polls in the courts and threaten a campaign of civil disobedience.

"We can only call for dialogue; they have to respond. But at the moment they aren't prepared to make concessions," says Mr Mubabi Lungu, Mr Kaunda's spokesman. "They want the kind of dialogue that is a public

relations exercise."

The donors, too, are waiting for the government to start talking - adamant that they will not make the first move. They are looking for concrete gestures of goodwill, such as a halt to the crackdown on the press and action by the newly-formed anti-corruption committee, before they will consider resuming funding.

But in the current climate, with the hardliners still vocal, donors say it is quite possible that a pledging session in Paris will be delayed until December, meaning an entire year will have been lost.

A long delay carries great risks for Zambia. With foreign governments under domestic pressure to cut aid budgets, it seems certain that when aid eventually does resume, it will be at nothing like its former levels, when it accounted for as much as 77 per cent of total government expenditure.

"Several of my colleagues have already signalled that when they resume aid it will be at dramatically lower levels," acknowledges an ambassador. "The world has moved on. In 1991, Zambia was flavour of the month. Now there are new flavours of the month."

Much depends on which MMD camp - the hardliners or the moderates - Mr Chiluba decides to heed in the coming months.

Pessimists fear his new mandate will make the president more arrogant, the repression will continue and he could even go so far as to tinker with the constitution again to allow himself a third term in office.

Optimists hope to see a general easing up by a president who now has little to fear from the opposition and may be more concerned with the nature of the legacy he leaves his country.

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4 ZAMBIA

THE COPPER INDUSTRY • by Mark Ashurst

On the brink of bankruptcy

Foreign investors seem undaunted by the spectacular demise of the industry

"Everyone knows that sooner or later the government will take control... but nobody is prepared to say so. Nor when it is likely to happen, nor how it will happen, nor even when and how (and whether) it ought to happen... The eventual fate of the copper industry still remains one of the largest unresolved questions facing the country."

Almost three decades have passed since Mr Michael Faber, academic and former adviser to the Zambian government, offered this analysis of the copper industry on the brink of nationalisation. In the intervening period, production has fallen steadily from its 1969 peak of 720,000 tonnes to 327,473 in 1996. The resulting slump in national income sparked the social unrest which in 1991 ended 27 years of autocratic rule by Mr Kenneth Kaunda, Zambia's founding president. Since then, rising debt and a faltering cashflow have pushed Zambia's Consolidated Copper Mines to the brink of bankruptcy.

Its imminent privatisation, due to be concluded this year, is the most ambitious economic reform since President Frederick Chiluba's ruling Movement for Multiparty Democracy came to power five years ago. But despite a sea change in sub-Saharan politics, and the economic orthodoxies that accompanied it, the motives for privatising ZCCM have much in common with those which led to nationalisation in 1970.

Then, as now, there was consensus that copper production "should be increased beyond current plans" although Mr Faber writes that this was tempered by the unwelcome knowledge that "substantial ore-bodies



The fate of the copper industry remains one of the largest unresolved questions facing the country

which could be mined are, in present circumstances, not likely to be so."

Second, in a faint echo of Mr Kaunda's past ambitions, officials at the Zambia Privatisation Agency argue that a buoyant copper industry could accelerate industrial development and restore per capita incomes to their highest level since the 1960s. But to this day, the fate of Zambia's copper industry remains one of the largest unresolved questions facing the country.

The burgeoning exploration and prospecting activities in the Zambia Copper Belt over the past three years testify to the promise of the ore reserves still to be developed, although new projects will be highly geared to fluctuations in the copper price. But despite robust demand, the heyday of the world copper industry has passed.

Between 1929 and 1960, world copper consumption rose from 2m tonnes to 4m tonnes. By 1976 demand had more than doubled again to 8.5m tonnes, compared with its current level of about 10m tonnes a year. This phenomenal growth was driven largely by electrification, which brought the proliferation of lights, motors and telephone cables.

It was the promise of this exponential growth, and its potential to consolidate the

influence of rival colonial powers in Africa, that attracted the first prospectors to the Copper Belt in the late 19th century.

The origins of state control of the copper industry can be traced to the eve of Zambian independence in 1964 when the British South Africa company, founded by Cecil John Rhodes, surrendered its rights to the mineral reserves of the colony then known as Northern Rhodesia.

Faced with a sudden ultimatum - an offer of \$2m each from the British and Zambian governments for all the nation's mineral rights, or nothing - directors were given just 11 minutes to reach a decision.

The company's acceptance was announced to the public three hours before the Zambian flag was raised at the independence ceremony. The deal marked the end of what Mr Kaunda described as "the saddest economic arrangement ever made in this country". In the years to 1963, an estimated \$28m in mineral rights were claimed by colonial powers.

Mr Kaunda's next move to divert copper profits from foreign shareholders came in 1970 when the state took a 51 per cent stake in Nchanga and Roan Consolidated. South Africa's Anglo American and Amstar, the US-based group, retained 49 per cent

of the share capital of the respective mines and continued to manage them until the mid-1970s, when their contracts were terminated. Amstar subsequently withdrew, while Zambia Copper Investments, a subsidiary of Anglo, retained a 27.3 per cent stake in ZCCM, the new group formed when the mines were merged in 1981. "It has been difficult for us to exert any influence at board level. ZCCM was a portfolio investment," says Mr Anderson Mazoka, Anglo's managing director in Lusaka.

The subsequent decline of the Zambian copper industry, which has slipped from its 1970s position as the world's fourth-largest copper producer to 12th place last year, is well documented. Its decline began with the world oil crisis in 1973 which slowed industrial development, drove down copper prices and created a shortage of foreign exchange. The government reacted by retaining the majority of the mines' foreign earnings to fund its programme of social and infrastructural development.

From that point on, recalls Mr Geoff Casson, senior manager of corporate planning at ZCCM, "the industry ate its own capital and relied on loan finance to develop short-term surface projects. There was no replacement of

reserves, and by the time ZCCM was formed in 1981, we were starting to see the cracks in the walls."

In the 14 years prior to nationalisation, while copper output rose by 80 per cent, capital investment amounted to less than half the sum of dividends sent abroad. The impact of Mr Kaunda's intervention was exacerbated by Zambia's dependence on copper earnings in a virtual monoculture, the metal traditionally contributed 90 per cent of export earnings.

Although last year's slump in the copper price and the rapid growth of non-traditional exports has begun to erode this figure, lower copper production in 1996 was the main cause of an 18 per cent drop in export earnings to \$974.9m.

The shortage of capital has become progressively more acute. Since the early 1990s, ZCCM has vetoed any capital expenditure that did not bring a return within 18 months. But production costs at its ageing mines have followed an upward path since the 1980s, when the Copper Belt mines were among the lowest-cost producers in the world. During the depression of 1982, these mines sold copper at 3 cents a pound, compared with the cheapest American price of 7 cents.

Today, ZCCM is in the top quartile of high-cost producers. The cost of production currently sits with external debt of more than \$600m, and short-term debt of \$150m-\$200m owed to local suppliers. The total debt is broadly in line with ZCCM's net asset value. "It came to a push. I think that ZCCM can meet its creditors," says Mr Willa Mung'omba, head of the Zambia Privatisation Agency's ZCCM task team.

It is a mark of the industry's spectacular demise that even this precarious position is now presented as grounds for confidence among foreign investors daunted by the scale of the task ahead.

required, to satisfy delivery schedules; and to attract investment by some "international market player" that would set a learning process in motion for Zambian manufacturers to copy.

Despite this, the World Bank's baseline scenario for the 1994-2005 period projects manufacturing growth of 4.3 per cent annually, only fractionally slower than the 4.5 per cent growth rate of GDP.

But even this modest growth will prove elusive without the appropriate enabling environment. In the World Bank's words: "Infrastructure is highly inadequate for manufacturing companies that aim to conduct their business according to modern standards. The most serious problems are caused by inadequate electricity, roads, telephones and security."

Given these problems, manufacturing's recovery is going to be a slow business, albeit one that will be boosted enormously once copper privatisation is up and running.

On present form, it will take until the year 2000 to regain production levels of the early 1990s, but Zambian manufacturing in the 21st century will be very different from that of the 1990s, if only because it will be much more of a slow business, though remaining strongly resource-based.

PRIVATISING ZCCM • by Mark Ashurst

Spectacular interest from global industry

The critical question is whether the business can be revived

For a company too poor to lay off its workers, the interest from the global mining industry in the privatisation of Zambian Consolidated Copper Mines (ZCCM) is spectacular.

Cash flow at the ailing conglomerate is so tight that the group can not meet the cost of redundancy payments at exhausted mines, but concrete evidence of optimism among foreign investors includes:

- The signing last month of a long-awaited memorandum of understanding between the Zambian government, ZCCM, Anglo American and Gencon of South Africa, and Falconbridge, the Canadian group, to carry out a feasibility study into the development of Konkola Deep;
- The sale in late January of Kansanshi, a marginal mine producing less than 1,000 tonnes of copper annually, to Cyprus Amax, the US group, in a package priced at \$28m. The deal compares favourably with the premiums paid for copper deposits in the bull markets of Chile and Peru;
- The issue of new prospecting licences, which has progressed so rapidly that the government's map of exploration activity is routinely out of date within weeks of publication;
- The flurry of interest among international mining groups considering an offer for ZCCM's existing assets. From the 37 majors which prequalified to bid for the various tranches of ZCCM, a total of bids were received by N M Rothschild, the investment banker appointed to manage the sale, by the deadline of February 28; and
- The emergence of Zambia Copper Investments, the subsidiary of Anglo American, as a favourite speculative stock among making investors. The company's only interest is a 27.3 per cent portfolio investment in ZCCM, but ZCI has emerged as an enigmatic counter highly geared to the perceived prospects for Zambian copper. Earlier this year, the shares doubled in value over a period of weeks on rumours of new discoveries at Konkola Deep.

The activity is particularly noteworthy given ZCCM's crushing debt, and its history of poor investment in new ore reserves. The group's external debt, which includes tranches of multi-lateral loans secured through the Zambian government, is estimated to exceed \$600m.

In addition, ZCCM owes \$150m-\$200m to local suppliers and creditors, many of whom, exploited the volatility of the Zambian kwacha and the strict exchange control regime of the 1980s to inflate prices well above international equivalents. The group's total debt of about \$800m is broadly in line with the group's net asset value.

With estimated copper production of 350,000 tonnes this year, about half the level of the early 1970s, the rationale for the privatisation is clear.

First, ZCCM is in dire need of new capital for long-term development, which the state can not afford.

Second, the experience of state intervention - which deprived ZCCM of its foreign earnings and guaranteed contracts for local suppliers in place of competitive tendering - has highlighted the need for private sector disciplines.

According to Mr Geoff Casson, senior manager of corporate planning at ZCCM, local suppliers have made "no real attempt" to lower costs.

For new operators in Zambian mining, however, the critical question is whether the business built by ZCCM can be revived - or whether its prospects are limited to new deposits. Few doubt the potential of the undeveloped reserves, and the best-known deposits are set to attract substantial development. The estimated cost of developing Konkola Deep is \$700m-\$800m, and confidence has been buoyed by Anglo's decision to include an option on a marginal mine with

6,000 employees at Konkola and a nearby smelter at Mufulira in the deal.

Neighbouring Konkola North was sold to Anglovaal last year, partly in response to miners' frustration with the slow pace of negotiations over Konkola Deep, and is expected to absorb \$1bn. "We've done an enormous amount of work and we are committed to 50,000 metres of exploratory drilling," says Mr Derek Kyle, director of new business at Anglovaal, which has spent about \$15m to date on exploration in Zambia.

Although much of the data previously assembled by ZCCM, Anglo American and their predecessors has still to be analysed using modern methods, the archives have helped new arrivals to develop detailed exploration strategies.

The existing operations are more fragile. An internal audit carried out by ZCCM in the early 1980s calculated that to sustain annual copper production of 600,000 tonnes would require new capital investment of \$300m a year.

That figure has never been achieved, with the result that most of ZCCM's operating mines are now 20-30 years old with costs in the

top quartile of the global industry. The workforce has been reduced from more than 50,000 to 42,000 in the past five years, and a further 15 per cent could be sacrificed by new owners.

The methodology of privatisation has sparked fierce debate. After four years of delays, the Zambia Privatisation Agency has opted to unbundle ZCCM's assets for sale in nine separate packages, each including new mining prospects. ZCCM will retain 20-30 per cent of each one.

Mr Willa Mung'omba, head of the agency's ZCCM task team, says short-term debts will be written down using the proceeds of the sale, while "a substantial amount of long-term debt will have to be relocated (to the various packages)".

However, not all the marginal mines will find suitors, and those which are not sold will remain temporarily in ZCCM pending disposal. The precise contents of each package remains negotiable, and it is in the months following the bidding deadline of February 28 that the toughest work will be done.

Arguably the most enduring problem is debt, for which a new home can not be found until the final structure of the packages is known. Once the debt burden can be shifted to the new owners, ZCCM will be transformed into a holding company with minority stakes in its former assets.

This approach runs counter to the advice of Anglo American, which advised ZCCM in 1992 to authorise a rights issue to re-capitalise ZCCM. Mr Anderson Mazoka, Anglo's managing director in Lusaka, argues that a share issue would have provided instant capital, while the disposal of ZCCM's controlling interest to new buyers could have averted fears of a monopoly.

In terms of an amalgamation agreement between Anglo and the Zambian government, each has a first right on the other's shares in the event of a substantial disposal. Anglo is "not interested" in a general bid for ZCCM, says Mr Mazoka, but its efforts to secure management control have been rebuffed. "The ZPA's preference for unbundling is a more complex mechanism of raising capital, but one designed to avoid a concentration of ownership."

Whether that route will be justified by an influx of development capital from an array of competing investors will become clear in the months ahead.

Mark Ashurst

MANUFACTURING INDUSTRY • by Tony Hawkins

Glimmerings of recovery

Inadequate electricity, roads, telephones and security cause serious problems

Almost all indicators suggest that 1996 was a watershed year for manufacturing industry.

After peaking in 1990, the volume of manufacturing production plunged 25 per cent in the following five years to its lowest level since the late 1970s. But last year there were the glimmerings of recovery as value added rose 2.5 per cent. Some believe that the recovery was a good deal stronger than this, with manufacturers on the Copper Belt reporting volume growth of 25 per cent.

The signs are that manufacturing will grow significantly faster this year. Mr Mark O'Donnell, chairman of the Zambia Association of Manufacturers, is bullish about the prospects for non-traditional exports which have increased 150 per cent over the past six years from \$90m, excluding electricity, in 1990 to an estimated \$230m last year. Non-traditionals now account for a quarter of total exports - up from 8 per cent in 1990.

According to the Export Board of Zambia, non-traditional exports now account for some 40 per cent of the production of companies it surveys, with the main cate-

gories being floriculture, semi-precious stones, textiles, primary agricultural goods and chemicals and engineering products. Some 37 per cent of non-traditional exports go to European Union countries, with Britain accounting for almost a third of this business and Germany for more than a fifth.

Another 37 per cent goes to regional trading partners, excluding South Africa, dominated by Zimbabwe and Zaïre which between them account for almost two-thirds of the regional trade. Malawi and Tanzania are also significant importers. South Africa accounts for 8 per cent of the total, putting it in joint fourth place with Germany, behind Zimbabwe, Zaïre and the US.

Mr O'Donnell is upbeat, too, about future trade links with South Africa with whom Zambia hopes to negotiate a bilateral agreement. He believes a most-favoured-nation agreement with South Africa, that reduced tariffs by 50 per cent, would substantially increase Zambia's access to the South African market.

Zambian industrialists cite the infrastructure - especially the roads - and a "critical shortage" of skills as the main constraints on growth in the late 1990s. Although the government is to invest \$500m in road rehabilitation and development, this will only alleviate the situation significantly towards the end

of the decade.

While welcoming the 2.5 per cent reduction in VAT to 17.5 per cent, industrialists say they would like to see a further cut to 15 per cent allied with greater investment incentives with accelerated depreciation allowances over two to three years rather than the existing five years.

Zambia's basic corporate tax rate of 35 per cent is competitive within the region, and particularly for agriculture and non-traditional exporters who pay only 15 per cent company tax, while companies listed on the Lusaka Stock Exchange pay 30 per cent.

If investment certificates issued by the Zambia Investment Centre are any guide, manufacturing is the sector attracting most new investment. In the four years to 1996, the centre licensed more than 300 new manufacturing projects worth \$322m, closely followed by agricultural projects valued at \$298m. Between them, these two sectors account for two-thirds of "pledged" investments since 1993, worth \$950m. There is, of course, no guarantee that licensed projects will actually go ahead, and all projects do not go through the centre, so

its licences do not capture all the new investment being undertaken.

Not everyone shares the fragile optimism of Zambian industrialists. A recent World Bank study notes that "experience so far does not offer much basis for optimism that manufacturing can be an important driving force of Zambian development in the short-to-medium term; non-resource-based manufacturing seems especially poorly positioned".

Viewed solely from a cost perspective, the Bank says Zambia is "surprisingly competitive" as an export market. Its labour costs (in mid-1994) of \$30 a month for factory labour are well below those of countries such as Zimbabwe (\$60 a month), Kenya (\$40), and Mauritius (\$110) that have managed to break into global export markets. Even with lower productivity, Zambian costs remained advantageous.

But there is far more to successful exporting than cost competitiveness. The World Bank finds Zambia lacking in the experience and capacity to produce large-volume orders to meet the stringent production and quality specifications

required, to satisfy delivery schedules; and to attract investment by some "international market player" that would set a learning process in motion for Zambian manufacturers to copy.

On present form, it will take until the year 2000 to regain production levels of the early 1990s, but Zambian manufacturing in the 21st century will be very different from that of the 1990s, if only because it will be much more of a slow business, though remaining strongly resource-based.

PROFILE Valentine Chitalu, Chairman of the Zambia Privatisation Agency

Critical role in the economy's rescue

The constitution dictates that Zambia will need a new head of state by 2001, when President Frederick Chiluba is due to complete his second term in office. Mr Valentine Chitalu does not want the job.

The 32-year-old chief executive of the Zambia Privatisation Agency says his task of dissecting the state-controlled economy is critical to the health of the young democracy. And in the absence of an obvious successor to President Chiluba, some say his track record would make him a favourite choice among the foreign donors whose support is vital for Zambia's economic reforms.

Mr Chitalu rubbishes the suggestion. His growing reputation as the architect of Africa's most successful privatisation programme is

no qualification for the job, he claims. "I have never worked in the public sector before, and I don't like the smell. I am looking forward to going back to the private sector."

The speculation, albeit unfounded, is a mark of the symbiosis between Zambia's privatisation programme and its faltering transition to a modern, multi-party democracy.

"Democratic adjustment is very much dependent on structural adjustment," says Mr Chitalu. "Zambian democracy is not of a quality that donors want because the economy is still in state hands. When 90 per cent of the economy is in private hands there will be a more even distribution of political power."

Mr Chitalu believes the threat of one-party



Chitalu's controversy reinforced his reservations about foreign aid

dominance has highlighted the importance of economic reform. Democrats, he says, must pin their hopes on the private sector, not the government, to reform the country.

That process could be stalled if the diplomatic

impasse becomes a deterrent to foreign investors, he says. Mr Chitalu wants "enough foreign interests so that it will become impossible for diplomats to take action that will hurt their own companies."

The political controversy has reinforced his reservations about foreign aid. He sees the acute disappointment among foreign donors as a counter-reaction to the extraordinary support given to Zambia in 1991, when Mr Kaunda lost power after 27 years at the helm of a one-party state.

"We are living beyond our means. A more normal level of donor support will help us attain reality."

"We need to strengthen institutions like the ZPA, which act as a check on

government," says Mr Chitalu. Of 11 directors on the ZPA board, eight are nominated by organisations in the private sector.

Mr Chitalu, a former merchant banker and UK-qualified accountant, with a masters degree in development economics from Cambridge, has played a critical role in rescuing the Zambian economy.

Five years ago, the country was on the brink of economic collapse. Today, the privatisation orchestrated by Mr Chitalu has triggered a surge in foreign investment, and rapid growth in export-oriented industries.

Mr Chitalu has now embarked on his toughest assignment yet - the privatisation of Zambian Consolidated Copper Mines. Recovery means securing

new capital for a group with an estimated \$800m of debt at a time of weak copper prices.

The easiest path would have been to accept a general offer from a consortium led by Anglo American, which already holds 25 per cent of ZCCM. But Mr Chitalu is wary of an excessive concentration of power in the private sector. Consequently, the ZPA will unbundle the biggest mines, package them with new prospecting rights, and sell them individually.

"The route is still open to buy the whole thing. But anyone who does that will have de facto control of the economy," he says. "No-one wants that. We will let the market decide."

Mark Ashurst

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6 ZAMBIA

TOURISM • by Stephanie Gray and Michela Wrong

Developers queue up

Ministerial foot-dragging has, until recently, delayed privatisation

When Mr Ben Parker and his business partner first started clearing bush on the north bank of the Zambezi to make room for a lodge, they were laughed at by developers across the river in Zimbabwe. "They thought we were nuts to be setting up in Zambia. They couldn't believe it."

Seven years later, the British-owned Tongabesi lodge, 15km from the Victoria Falls, caters for the top end of the tourist market, providing the kind of service and facilities signally absent at the superbly-located but decaying government lodges downstream.

Guests pay \$280 and more a night, for the chance to stay in its tented rondavels perched picturesquely on a vast sweep of jungle-fringed river, canoe alongside snoring hippo, and fall asleep listening to a hypnotic chorus of frogs and crickets.

And much to Mr Parker's dismay, those who once mocked are now playing

copycat. Shearwater, the Zimbabwean hotel chain, wants to build a lodge next door to Tongabesi, violating environmental recommendations that riverbank developments should be separated by at least half a kilometre.

"This is a test case. If Shearwater are allowed to go ahead, this part of the river will become a Riviera. Every Zimbabwean is looking for land here," says Mr Parker, who is campaigning to have the development blocked.

The fact that developers are actually wrangling over turf in Zambia is a measure of how far its tourism industry has travelled.

For decades its assets – the breathtaking Victoria Falls, Lake Kariba, the mighty Zambezi, the sandy beaches of Lake Tanganyika and the superb game parks of the Luangwa Valley – were one of Africa's best-kept secrets.

An unreliable national airline, poor roads, dreary state-owned lodges and a failure to market the destination internationally kept visitors away. Zambia's proximity to Zaire, where ebola fever outbreaks and rebel advances receive alarming foreign coverage, further conspired against it.

Of all the sectors of the economy, tourism was the slowest to respond to the privatisation process, held back by ministerial foot-dragging.

"We have never been shown a list of the lodges and campsites owned by the government," says Mr Stuart Cruickshank, technical director of the Zambia Privatisation Agency. "We understand that some 60 per cent have been bought, but we don't know who was involved."

That era appears to have ended. The privatisation agency is shortly to be handed complete responsibility for the state's remaining properties and in his latest budget the finance minister announced the establishment of an autonomous tourist board.

"At least a year has been lost, but there seems to be a new determination," says Mr Cruickshank. "The potential is enormous and there's a lot of interest from British, Zimbabwean and South African companies."

Zambia starts from such a low base that the room for expansion is vast. Predictions made four years ago by the then tourism minister that visitor numbers would reach 400,000 by 1995 have

proved wildly optimistic. Official statistics show that only 166,280 tourists – one ninth of the numbers that visit Zimbabwe each year – came to Zambia last year, bringing revenue of \$150m.

Even that number is suspect because industry operators complain that no accurate records are kept and the figure probably includes large numbers of businessmen and World Bank consultants rather than bona fide tourists.

Nonetheless, the industry's contribution to GDP growth amounted to 17.7 per cent in 1996. Playing a role in this increase has been the emergence of private airlines – Aero Zambia, Zambia Express, Eastern Air and Roan Air, partly owned by the copper conglomerate ZCCM – which replaced the defunct Zambia Airways, and a marketing exercise that has Zambia's delights displayed on the Internet rather than in the dingy windows of the existing Tourism Board and Ministry.

The private safari and lodge operators have given up the practice – mostly by necessity – of trying to cut each other's throats and have teamed up with the big hotel owners to form the



Official statistics show that only 166,280 tourists – one ninth of the numbers that visit Zimbabwe each year – went to Zambia last year.

Zambia Tourism Council in order to speak as one.

They have been encouraged by the dialogue they now enjoy with the government, largely due to the presence of Mr Xeni Vlahakis, a private sector travel businessman, as permanent secretary at the Ministry of Tourism. "Five years ago, no-one in government would speak to any of the companies," said Mr Mark Harvey, deputy president of the council and representative for the safari operators.

The private sector is pleased that it has been invited to participate in the

drafting of tourism, national parks and wildlife bills that might address such issues as the complex question of land rights in a country where much of the land is communally held and there are few records of title deeds.

Making a virtue out of necessity, Zambia's tourist operators are snuffy about the success of their counterparts in Zimbabwe and Kenya. They hope to avoid excessive commercialisation and develop Zambia as an exclusive destination.

"We can't compete with them because we don't have the infrastructure," said Mrs

Agnes Semeza, acting chief executive of the Tourist Board. But she and most others in the business are keen not to have 20 vehicles circling one animal or a hamburger bar blotting the landscape on their side of Victoria Falls.

Applications for a cable

car, an amusement park in a cage that would be lowered into the Boiling Pot – where the spray from Victoria Falls billows up the gorge – have been refused and anyone applying for lodge development must first carry out an environmental impact report.

AGRICULTURE • by Stephanie Gray

Outgrowers hold the key

Lonrho's lead could be a model for Zambian agriculture in general

Mr Ginty Melville, a hard-headed cotton expert from Zimbabwe has introduced an outgrowers' scheme the success of which is critical for the Zambian economy if it is to continue its modest move away from near-total reliance on copper.

The scheme – regarded as a possible model for other export crops, and agriculture generally – could be an example for whatever replaces Zambia's collapsed farmer credit and marketing system. It has attracted the attention of the World Bank, the International Monetary Fund and the United Nations Food and Agriculture Organisation.

Mr Melville is general manager of Lonrho Africa Agribusiness. His company provides timely supplies of seed, fertilisers, pesticides and tools at cost and on credit to 150,000 farming families tilling more than 100,000ha.

It pays a basic producer price, with bonuses linked to yields and to international prices for cotton lint.

Farmers who had become over-reliant on the state and needed retraining in land husbandry, are visited every fortnight by an extension officer whose earnings are linked to the farmers' performance. So far, repayments for 120 days' credit are between 80 and 90 per cent. Repayment under the state system amounted to barely 10 per cent.

Lonrho's push into cotton, which has made a big contribution to revenue of \$35m last year, up from \$3.5m in 1994, was a consequence of a 1985 foreign exchange crunch which led the company into a joint venture with a government-owned ginnery in order to acquire hard currency for its other operations. It subsequently took government shares in the ginnery and has since tripled its processing capacity.

Mr Melville believes the scheme, adapted from a World Bank model, will quadruple cotton production in the next few years and is an example of how the old government system should have worked.

Meanwhile non-traditional crops have done exceptionally well over the past year, as has agriculture overall, due primarily to two years of good rains.

The industry's contribution to gross domestic product rose last year from 18 to 23 per cent.

Floriculture has reaped the benefits of imported technical know-how, low-cost off-shore loans from donor and quasi-commercial sources, and cheap air freight following the demise of Zambia Airways – and has increased revenue from \$3m in 1992 to \$18m last year.

Last month, more than 200,000 roses were produced for the UK Valentine's Day market.

Tobacco revenues have risen from \$3.9m in 1994 to \$10m in 1996. Income from coffee production almost doubled to \$4m in the same period, partly due to reduced world supplies brought about by extensive frosts in South America. Prospects

are promising too for soya, groundnuts and paprika.

Apart from cotton, however, the non-traditional exports are mainly the preserve of about 700 commercial farmers only just recovering from the crisis that resulted from a combination of financial sector liberalisation and macroeconomic stabilisation in the early 1990s. This pushed real interest rates to levels of up to 100 per cent – a compound rate of up to 1 per cent.

It is the smallholders, particularly in maize production, who have been the most recent victims of the changes in government policy. Ever since the 1970s heavily subsidised maize production in the name of food security had been a government priority. During the 1980s, large numbers of smallholders essential for the government. The farmer provided the land a labour, the latter the input of guaranteed prices, collection, storage and market services.

The farmers retain enough maize for subsistence but were obliged to sell any surplus to the state if the farmer's yield



Floriculture is flourishing: roses from a CDC-managed 'agribusiness' near Lusaka

return were inadequate, simply did not repay its inputs loan – with little or no action taken against it. By the late 1980s, maize-related subsidies accounted for as much as 16 per cent of national budget.

In 1993, the government "bailed out" of the system and there was such an outcry it was forced to step back in and raise credit for fertiliser. "We were damn if we did and damned if we didn't," says Mr Ernest Sitonga, permanent secretary at the Agriculture Ministry.

A four-year agricultural sector investment programme, funded with \$500m from the World Bank, aims to address the issue of agricultural financing. Critics say it has become unwieldy, too many projects have been put forward, at that reforms within the agriculture ministry have many civil servants preoccupied with internal politics than effective far-reaching policy change.

But maize production was not nearly as important as it was 20 years ago and farmers had already started moving into more drought-tolerant food crops. The share of maize in total plantings has fallen from 68 per cent between 1985 and 1990 to 50 per cent in 1994-95.

All these painful changes are starting to pay off, however. The World Bank believes agricultural GDP is capable of expanding at about 5 per cent a year to the year 2000, even taking into account the impact of drought.

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The Anglo American family of companies started many of the now established industries in Africa. Today, with names such as Daewoo, Del Monte, Mitsubishi and Ford currently involved in joint manufacturing and marketing projects, the Anglo American group is helping to transform sub-Saharan Africa into one of the world's most fertile investment regions.

In Zambia, Anglo American has been instrumental in introducing investment by a range of companies. These include SA Breweries in Zambia Breweries and Namib Milling in National Milling. The successful transformation of the Holiday Inn Lusaka Ridgeway is due to the

introduction, by Anglo American, of the international management expertise of the Southern Sun/Holiday Inn groups.

In the Zambian mining sector Anglo American has formed a consortium between its associate Zambia Copper Investments and international mining houses Gencor and Falconbridge. This consortium is conducting studies which, it is hoped, will lead to the development of the Konkola Deep Mining Project.

Anglo American has long been a world class group with extensive international investments. However, our commitment to Africa remains absolute. Anglo American and its associated companies provide employment for more than 400,000 people in the sub-continent alone.

With this unique wealth of experience, it's hardly surprising that when businesses need an introduction, their first call is Anglo American.

Anglo American Corporation



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